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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2017

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 1-9947**

**TRC COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

06-0853807

(I.R.S. Employer Identification No.)

21 Griffin Road North

Windsor, Connecticut

(Address of principal executive offices)

06095

(Zip Code)

Registrant's telephone number, including area code: (860) 298-9692

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [ ]

Accelerated filer [X]

Non-accelerated filer [ ]

Smaller reporting company [ ]

(Do not check if a smaller reporting company)

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

On April 20, 2017 there were 31,623,879 shares of the registrant's common stock, \$.10 par value, outstanding .

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**QUARTER ENDED MARCH 31, 2017**

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# PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

### **TRC COMPANIES, INC.** **CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS** (in thousands, except per share data) (Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
<b>Gross revenue</b>	<b>\$ 189,724</b>	<b>\$ 158,130</b>	<b>\$ 569,237</b>	<b>\$ 451,332</b>
Less subcontractor costs and other direct reimbursable charges	60,999	36,877	188,851	118,534
<b>Net service revenue</b>	<b>128,725</b>	<b>121,253</b>	<b>380,386</b>	<b>332,798</b>
<b>Interest income from contractual arrangements</b>	<b>20</b>	<b>27</b>	<b>116</b>	<b>69</b>
<b>Insurance recoverables and other income</b>	<b>1,140</b>	<b>146</b>	<b>2,421</b>	<b>1,919</b>
<b>Operating costs and expenses:</b>				
Cost of services (exclusive of costs shown separately below)	107,071	104,030	316,360	280,690
General and administrative expenses	11,290	9,523	33,171	24,690
Acquisition and integration expenses	—	1,606	—	3,724
Goodwill impairment	—	24,465	—	24,465
Depreciation	1,701	1,942	5,243	5,070
Amortization	2,813	3,162	8,146	5,078
<b>Total operating costs and expenses</b>	<b>122,875</b>	<b>144,728</b>	<b>362,920</b>	<b>343,717</b>
<b>Operating income (loss)</b>	<b>7,010</b>	<b>(23,302)</b>	<b>20,003</b>	<b>(8,931)</b>
Interest income	391	189	955	326
Interest expense	(1,201)	(1,073)	(2,887)	(1,562)
<b>Income (loss) from operations before taxes</b>	<b>6,200</b>	<b>(24,186)</b>	<b>18,071</b>	<b>(10,167)</b>
Income tax (provision) benefit	(1,663)	9,954	(5,867)	4,358
<b>Net income (loss)</b>	<b>4,537</b>	<b>(14,232)</b>	<b>12,204</b>	<b>(5,809)</b>
Net income applicable to noncontrolling interest	(39)	(65)	(69)	(59)
<b>Net income (loss) applicable to TRC Companies, Inc.</b>	<b>\$ 4,498</b>	<b>\$ (14,297)</b>	<b>\$ 12,135</b>	<b>\$ (5,868)</b>
<b>Basic earnings per common share</b>	<b>\$ 0.14</b>	<b>\$ (0.46)</b>	<b>\$ 0.39</b>	<b>\$ (0.19)</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.14</b>	<b>\$ (0.46)</b>	<b>\$ 0.38</b>	<b>\$ (0.19)</b>
<b>Weighted-average common shares outstanding:</b>				
Basic	31,605	31,045	31,401	30,886
Diluted	32,248	31,045	31,937	30,886

*See accompanying notes to condensed consolidated financial statements.*

**TRC COMPANIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
<b>Net income (loss)</b>	<b>\$ 4,537</b>	<b>\$ (14,232)</b>	<b>\$ 12,204</b>	<b>\$ (5,809)</b>
<b>Other comprehensive (loss) income</b>				
Unrealized (loss) gain on available-for-sale securities	(4)	5	(96)	(18)
Tax effect on unrealized (loss) gain on available-for-sale securities	2	(2)	37	8
Reclassification for loss (gain) on available-for-sale securities included in net income	—	2	—	32
Tax effect on realized (gain) loss on available-for-sale securities	—	(1)	—	(13)
<b>Total other comprehensive (loss) income</b>	<b>(2)</b>	<b>4</b>	<b>(59)</b>	<b>9</b>
<b>Comprehensive income (loss)</b>	<b>4,535</b>	<b>(14,228)</b>	<b>12,145</b>	<b>(5,800)</b>
Comprehensive income attributable to noncontrolling interests	(39)	(65)	(69)	(59)
<b>Comprehensive income (loss) attributable to TRC Companies, Inc.</b>	<b>\$ 4,496</b>	<b>\$ (14,293)</b>	<b>\$ 12,076</b>	<b>\$ (5,859)</b>

*See accompanying notes to condensed consolidated financial statements.*

**TRC COMPANIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)  
(Unaudited)

	March 31, 2017	June 30, 2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 6,211	\$ 18,804
Restricted cash	16,760	71
Accounts receivable, less allowance for doubtful accounts	183,069	149,280
Insurance recoverable - environmental remediation	47,410	49,934
Restricted investments	5,863	5,959
Income taxes refundable	—	75
Prepaid expenses and other current assets	22,253	24,122
Total current assets	281,566	248,245
<b>Property and equipment</b>	72,971	74,053
Less accumulated depreciation and amortization	(51,747)	(51,593)
Property and equipment, net	21,224	22,460
<b>Goodwill</b>	91,054	75,337
<b>Intangible assets, net</b>	48,515	45,969
<b>Deferred income tax assets</b>	24,685	26,239
<b>Long-term restricted investments</b>	17,010	18,420
<b>Long-term prepaid insurance</b>	21,838	23,425
<b>Other assets</b>	14,731	18,383
Total assets	\$ 520,623	\$ 478,478
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 10,783	\$ 18,339
Accounts payable	45,429	29,311
Accrued compensation and benefits	46,788	48,485
Deferred revenue	14,659	15,363
Environmental remediation liabilities	8,640	8,654
Income taxes payable	649	265
Other accrued liabilities	83,915	58,026
Total current liabilities	210,863	178,443
<b>Non-current liabilities:</b>		
Long-term debt, net of current portion	80,056	79,243
Long-term income taxes payable	939	2,204
Deferred revenue	59,595	65,340
Environmental remediation liabilities	395	433
Total liabilities	351,848	325,663
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
Common stock, \$.10 par value; 40,000,000 shares authorized, 31,623,496 and 31,620,014 shares issued and outstanding, respectively, at March 31, 2017, and 31,087,084 and 31,083,602 shares issued and outstanding, respectively, at June 30, 2016	3,162	3,109
Additional paid-in capital	198,918	195,156
Accumulated deficit	(33,763)	(45,898)
Accumulated other comprehensive loss	(130)	(71)
Treasury stock, at cost	(33)	(33)
Total stockholders' equity applicable to TRC Companies, Inc.	168,154	152,263
Noncontrolling interest	621	552
Total equity	168,775	152,815
Total liabilities and equity	\$ 520,623	\$ 478,478

*See accompanying notes to condensed consolidated financial statements.*



**TRC COMPANIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	Nine Months Ended	
	March 31, 2017	March 25, 2016
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 12,204	\$ (5,809)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
<b>Non-cash items:</b>		
Depreciation and amortization	13,389	10,148
Amortization of debt issuance costs	811	302
Stock-based compensation expense	5,529	4,278
Provision for doubtful accounts	799	—
Goodwill impairment	—	24,465
Deferred income taxes	1,591	(8,246)
Other non-cash items	(286)	483
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(23,157)	19,581
Insurance recoverable - environmental remediation	2,524	2,182
Income taxes	(3,383)	(2,443)
Restricted investments	761	1,184
Prepaid expenses and other current assets	1,591	(6,147)
Long-term prepaid insurance	1,587	1,671
Other assets	4,745	3,411
Accounts payable	15,132	(1,889)
Accrued compensation and benefits	(3,698)	(6,897)
Deferred revenue	(6,449)	(2,739)
Environmental remediation liabilities	(52)	(54)
Other accrued liabilities	1,653	(3,006)
<b>Net cash provided by operating activities</b>	<b>25,291</b>	<b>30,475</b>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(3,845)	(6,547)
Withdrawals from restricted investments	653	858
Acquisition of businesses, net of cash acquired	(19,087)	(119,600)
Proceeds from sale of fixed assets	302	73
<b>Net cash used in investing activities</b>	<b>(21,977)</b>	<b>(125,216)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facility	71,375	27,000
Repayments under revolving credit facility	(6,000)	(27,000)
Payments on long-term debt and other	(14,432)	(9,101)
Payments on capital lease obligations	—	(166)
Proceeds from long-term debt and other	4,865	6,523
Proceeds from term loan	—	75,000
Repayments of term loan debt	(72,187)	—
Payments of issuance costs on credit facility	(697)	(3,248)
Net working capital and additional cash payments on acquisitions	2,957	(1,132)
Shares repurchased to settle tax withholding obligations	(2,426)	(2,906)
Acquisition of non-controlling interest	—	(90)
Excess tax benefit from stock-based awards	—	1,473
Proceeds from exercise of stock options	638	212
<b>Net cash (used in) provided by financing activities</b>	<b>(15,907)</b>	<b>66,565</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(12,593)</b>	<b>(28,176)</b>

Cash and cash equivalents, beginning of period	18,804	37,296
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,211</b>	<b>\$ 9,120</b>
<b>Supplemental cash flow information:</b>		
Non-cash consideration for business acquired	\$ 8,500	\$ 7,500

*See accompanying notes to condensed consolidated financial statements.*



**TRC COMPANIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(in thousands)  
(Unaudited)

	TRC Companies, Inc. Stockholders' Equity									
	Accumulated						Total			
	Common Stock		Additional		Other	Treasury Stock		TRC	Non-	
	Number		Paid-in	Accumulated	Comp.	Number		Stockholders'	Controlling	Total
	of Shares	Amount	Capital	Deficit	Loss	of Shares	Amount	Equity	Interest	Equity
Balances as of July 1, 2015	30,486	\$ 3,049	\$ 191,321	\$ (45,939)	\$ (88)	3	\$ (33)	\$ 148,310	\$ (395)	\$ 147,915
Net income (loss)	—	—	—	(5,868)	—	—	—	(5,868)	59	(5,809)
Other comprehensive income	—	—	—	—	9	—	—	9	—	9
Exercise of stock options	31	3	208	—	—	—	—	211	—	211
Stock-based compensation	824	82	4,196	—	—	—	—	4,278	—	4,278
Shares repurchased to settle tax withholding obligations	(290)	(29)	(2,877)	—	—	—	—	(2,906)	—	(2,906)
Directors' deferred compensation	6	1	62	—	—	—	—	63	—	63
Acquisition of non-controlling interest	—	—	(948)	—	—	—	—	(948)	895	(53)
Stock-based compensation income tax benefits	—	—	1,326	—	—	—	—	1,326	—	1,326
Balances as of March 25, 2016	31,057	\$ 3,106	\$ 193,288	\$ (51,807)	\$ (79)	3	\$ (33)	\$ 144,475	\$ 559	\$ 145,034

	TRC Companies, Inc. Stockholders' Equity									
	Common Stock		Additional	Accumulated		Treasury Stock		Total		
	Number		Paid-in	Accumulated	Other	Number		TRC	Non-	Total
	of Shares	Amount	Capital	Deficit	Comp.	of Shares	Amount	Stockholders'	Controlling	Equity
					Loss			Equity	Interest	
Balances as of July 1, 2016	31,087	\$ 3,109	\$ 195,156	\$ (45,898)	\$ (71)	3	\$ (33)	\$ 152,263	\$ 552	\$ 152,815
Net income	—	—	—	12,135	—	—	—	12,135	69	12,204
Other comprehensive loss	—	—	—	—	(59)	—	—	(59)	—	(59)
Exercise of stock options	71	7	631	—	—	—	—	638	—	638
Stock-based compensation	748	74	5,455	—	—	—	—	5,529	—	5,529
Shares repurchased to settle tax withholding obligations	(292)	(29)	(2,397)	—	—	—	—	(2,426)	—	(2,426)
Directors' deferred compensation	9	1	73	—	—	—	—	74	—	74
Balances as of March 31, 2017	31,623	\$ 3,162	\$ 198,918	\$ (33,763)	\$ (130)	3	\$ (33)	\$ 168,154	\$ 621	\$ 168,775

*See accompanying notes to condensed consolidated financial statements.*

**TRC COMPANIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(in thousands, except per share data)

(Unaudited)

**Note 1. Company Background and Basis of Presentation**

TRC Companies, Inc., through its subsidiaries (collectively, the "Company"), provides integrated engineering, consulting, and construction management services. Its project teams help its commercial and governmental clients implement environmental, power, infrastructure and oil and gas related projects from initial concept to delivery and operation. The Company provides its services almost entirely in the United States of America.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted pursuant to those rules and regulations, but the Company's management believes that the disclosures included herein are adequate to make the information presented not misleading. The condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

*Recent Developments*

On March 30, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among the Company, Bolt Infrastructure Parent, Inc., a Delaware corporation ("Parent"), and Bolt Infrastructure Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, and on the terms and subject to the conditions thereof, among other things, Merger Sub will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of New Mountain Partners IV, L.P., a fund affiliated with New Mountain Capital, L.L.C. ("New Mountain Capital").

The Merger Agreement provides that at the effective time of the Merger (the "Effective Time"), each share of common stock, par value \$0.10 per share, of the Company issued and outstanding immediately prior to the Effective Time (other than shares (i) owned by the Company, Parent or Merger Sub or (ii) held by a stockholder who is entitled to, but did not vote in favor of the Merger (or consent thereto in writing) and is entitled to demand and properly demands appraisal of such shares) will be automatically converted into the right to receive cash in an amount per share (subject to any applicable withholding tax) equal to \$17.55 per share, without interest (the "Merger Consideration"). The Merger Agreement contemplates that the Merger will be effected pursuant to Section 251 of the Delaware General Corporation Law.

In addition, immediately prior to the Effective Time, unless otherwise agreed between a participant and Parent, each outstanding unvested and unexercised Company stock option will become immediately vested and exercisable in full and, at the Effective Time, each outstanding Company stock option, whether or not vested, that remains outstanding and unexercised as of immediately prior to the Effective Time (including each stock option that becomes vested and exercisable pursuant to the previous clause) will be canceled and converted into the right to receive an amount in cash, without interest and less the amount of any tax withholding, equal to the product of the excess, if any, of the Merger Consideration over the exercise price of such option and the number of shares of Company common stock underlying such option. Further, at the Effective Time, unless otherwise agreed between a participant and Parent, each restricted stock award, restricted stock unit and performance stock unit (the "Restricted Awards"), under any Company equity plan will become immediately vested (and, in the case of performance stock units, such vesting will be in the amounts corresponding to actual achievement of applicable performance goals thereto, which in the event that the closing of the Merger shall occur prior to June 30, 2017, will be determined in good faith by the Compensation Committee of the Board, by assuming achievement of performance goals for any portion of the applicable performance period that has not been completed as of the closing of the Merger taking into account historical levels of performance with respect

to the applicable performance goals) and all restrictions thereupon shall lapse, and such Restricted Awards will be canceled in exchange for and converted into the right to receive an amount in cash, without interest and less the amount of any tax withholding, equal to the product of the number of shares of Company common stock subject to such Restricted Award and the Merger Consideration following the Effective Time.

The Board of Directors of the Company (the "Board") has unanimously (1) determined that the Merger and the other transactions contemplated by the Merger Agreement are advisable and fair to, and in the best interests of, the Company and its stockholders, (2) adopted, approved and declared advisable the execution, delivery and performance of the Merger Agreement and the consummation of the transactions contemplated thereby, including the Merger and (3) resolved to recommend that the Company's stockholders approve the Merger Agreement and the Merger and other transactions contemplated by the Merger Agreement.

Stockholders of the Company will be asked to vote on the approval of the Merger Agreement and the Merger at a special stockholders meeting that will be held on a date to be announced. The closing of the Merger is subject to various closing conditions, including (1) approval of the Merger Agreement by the affirmative vote by stockholders of outstanding shares of common stock of the Company representing at least a majority of all votes entitled to be cast thereupon by stockholders of the outstanding Company common stock (the "Requisite Stockholder Approval"), (2) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR ACT"), (3) the absence of any statute, rule or regulation prohibiting or making illegal the consummation of the merger or order or injunction preventing the consummation of the Merger, (4) the accuracy of each party's representations and warranties (subject to certain materiality qualifiers), (5) each party's performance in all material respects of its obligations under the Merger Agreement and (6) no Material Adverse Effect (as defined in the Merger Agreement) having occurred with respect to the Company. The Merger is not subject to any financing condition. On April 25, 2017, the U.S. Federal Trade Commission granted early termination of the 30-day waiting period under the HSR Act, with respect to the proposed Merger. The grant of early termination has the effect of satisfying the HSR Act condition under the Merger Agreement.

The Merger Agreement contains customary representations, warranties and covenants of the parties. The Company has agreed, subject to the terms of the Merger Agreement, to various covenants and agreements, including, among others: (i) to continue to conduct its and its subsidiaries business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time and not to engage in certain kinds of transactions during this period; (ii) to cooperate in seeking regulatory approvals; (iii) to promptly call a special stockholders meeting to vote on the Merger Agreement and the Merger; and (iv) to cease all existing, and not to solicit or initiate any additional, discussions with third parties regarding other proposals to acquire the Company and to certain restrictions on its ability to respond to such proposals, subject to fulfillment of certain fiduciary requirements of the Board.

The Merger Agreement contains certain customary termination rights for the Company and Parent. Subject to certain limitations, the Merger Agreement may be terminated by either Parent or the Company if (i) agreed to in writing by Parent and the Company; (ii) the Merger is not consummated on or before July 31, 2017; (iii) the Merger becomes subject to a final, non-appealable order, decree or ruling in each case permanently restraining, enjoining or otherwise prohibiting the Merger or the other transactions contemplated by the Merger Agreement; (iv) the Requisite Stockholder Approval is not obtained following a vote of stockholders taken thereon; or (v) there has been a breach of any of the other party's representations, warranties, covenants or agreements contained in the Merger Agreement such that the applicable condition to closing would not be satisfied. In addition, and also subject to certain limitations, (a) Parent may terminate the Merger Agreement prior to obtaining the Requisite Stockholder Approval, if a Change of Recommendation (as defined in the Merger Agreement) has occurred or if the Company has otherwise materially breached its obligations relating to the solicitation of proposals from third parties, and (b) subject to the Company's compliance with certain provisions contained in the Merger Agreement, prior to the Requisite Stockholder Approval, the Company may terminate the Merger Agreement to enter into an acquisition agreement with respect to a Superior Proposal (as defined in the Merger Agreement).

Upon termination of the Merger Agreement under specified circumstances, including with respect to the Company's entry into an agreement with respect to a Superior Proposal, the Company will be required to pay Parent a termination fee of \$19,380.

The foregoing description of the Merger Agreement is not complete and is qualified in its entirety by reference to the Merger Agreement, which is attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on March 31, 2017. Additional information about the Merger and the Merger Agreement is set forth in the Company's Current Reports on Form 8-K filed with the SEC on March 31, 2017, April 19, 2017 and April 26, 2017, and in the Company's preliminary proxy statement filed with the SEC on April 25, 2017.

## **Note 2. New Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board ("FASB") issued an accounting standards update to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, any goodwill impairment will equal the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Further, the guidance eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. While we continue to assess the potential impact of this standard, we do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In March 2016, the FASB issued an accounting standards update which simplifies employee share-based payment accounting. This standard simplifies the income tax consequences, accounting for forfeitures and classification on the statement of cash flows. The standard requires that, prospectively, all tax effects related to share-based payments be made through the income statement at the time of settlement as opposed to excess tax benefits being recognized in additional paid-in-capital under the current guidance. The standard also removes the requirement to delay recognition of a tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening retained earnings. Additionally, all tax related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows, a change from the current requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities. Finally, entities will be allowed to withhold an amount up to the employees' maximum individual tax rate (as opposed to the minimum statutory tax rate) in the relevant jurisdiction without resulting in liability classification of the award. The change in withholding requirements will be applied on a modified retrospective approach. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company adopted this standard effective for its first quarter of fiscal 2017. The impact of the early adoption resulted in the following:

- The Company recorded a net tax benefit of \$0 and \$21 within income tax expense for the three and nine months ended March 31, 2017, respectively, related to net tax windfalls on share based awards. Prior to adoption this amount would have been recorded as an increase of capital in excess of par value. This change could create volatility in the Company's effective tax rate.
- The Company no longer reflects the cash received from the excess tax benefit within cash flows from financing activities but instead now reflects this benefit within cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows. The Company elected to apply this change in presentation prospectively and thus prior periods have not been adjusted.
- The Company elected not to change its policy on accounting for forfeitures and continues to estimate the total number of awards for which the requisite service period will not be rendered.
- The Company's statutory withholding requirements have been updated to allow withholding up to the Company's maximum statutory withholding requirements in relevant jurisdictions.

- The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of its diluted earnings per share for the three and nine months ended March 31, 2017. This increased diluted weighted average common shares outstanding by 188 and 119 shares, respectively, for the periods.

In February 2016, the FASB issued an accounting standards update which will replace most existing lease accounting guidance. This standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. This standard will be effective for the Company's fiscal year beginning July 1, 2019. Early adoption is permitted and should be applied using a modified retrospective approach. The Company is in the process of evaluating the potential impacts of this standard on its condensed consolidated financial statements and related disclosures, including potential early adoption. The Company anticipates the standard will have a material impact on its assets and liabilities due to the addition of right-of-use assets and lease liabilities to the balance sheet; however, it does not expect the standard to have a material impact on its cash flows or results of operations.

In May 2014, the FASB issued an accounting standards update that replaces existing revenue recognition guidance. The updated guidance requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB further clarified the implementation guidance on principal versus agent considerations. The new standard will be effective for the Company's fiscal year beginning July 1, 2018. Early adoption is permitted under this standard for annual periods beginning after December 15, 2016, and it is to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method and is currently evaluating the effect the standard will have on its condensed consolidated financial statements. The Company has developed a project plan that includes a three-phase approach to implementing this standard update. Phase one, the assessment phase, is currently in process. Phase two, which began during the third quarter of fiscal 2017, includes conversion activities, such as establishing policies, identifying system impacts and understanding the initial financial impact this standard update will have. Phase three, which is expected to begin during the first quarter of fiscal 2018, will include integrating the standard update into financial reporting processes and systems, and developing a more robust understanding of the financial impact of this standard update on the Company's condensed consolidated financial statements. The Company anticipates that the transition to the new standard could have a material impact on its consolidated financial statements but will be unable to quantify that impact until the third phase of the project has been completed. The Company expects the cost of the activities it is undertaking to transition to the new standard will result in an increase in general and administrative expenses in fiscal 2017 and 2018.

### **Note 3. Fair Value Measurements**

The Company's financial assets or liabilities are measured using inputs from the three levels of the fair value hierarchy. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

**Level 1 Inputs** - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Generally, this includes debt and equity securities and derivative contracts that are traded on an active exchange market (e.g., the New York Stock Exchange) as well as certain U.S. Treasury and U.S. Government and agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

**Level 2 Inputs** - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, credit risks) or can be corroborated by observable market data.

**Level 3 Inputs** - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

The following tables present the level within the fair value hierarchy at which the Company's financial assets and certain liabilities were measured on a recurring basis as of March 31, 2017 and June 30, 2016 :

**Assets and Liabilities Measured at Fair Value on a Recurring Basis as of March 31, 2017**

	Level 1	Level 2	Level 3	Total
<b>Restricted investments:</b>				
Mutual funds	\$ 50	\$ —	\$ —	\$ 50
Certificates of deposit	—	104	—	104
Municipal bonds	—	530	—	530
Corporate bonds	—	255	—	255
U.S. Government bonds	—	216	—	216
U.S. Treasury Notes	1,936	—	—	1,936
Money market accounts and cash deposits	6,269	—	—	6,269
<b>Total assets</b>	<b>\$ 8,255</b>	<b>\$ 1,105</b>	<b>\$ —</b>	<b>\$ 9,360</b>
Contingent consideration	\$ —	\$ —	\$ 854	\$ 854
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 854</b>	<b>\$ 854</b>

**Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2016**

	Level 1	Level 2	Level 3	Total
<b>Restricted investments:</b>				
Mutual funds	\$ 71	\$ —	\$ —	\$ 71
Certificates of deposit	—	107	—	107
Municipal bonds	—	547	—	547
Corporate bonds	—	439	—	439
U.S. Government bonds	—	219	—	219
U.S. Treasury Notes	2,009	—	—	2,009
Money market accounts and cash deposits	6,476	—	—	6,476
<b>Total assets</b>	<b>\$ 8,556</b>	<b>\$ 1,312</b>	<b>\$ —</b>	<b>\$ 9,868</b>
Contingent consideration	\$ —	\$ —	\$ 233	\$ 233
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 233</b>	<b>\$ 233</b>

A majority of the Company's investments are priced by pricing vendors and are generally Level 1 or Level 2 investments, as these vendors either provide a quoted market price in an active market or use observable input for their pricing without applying significant adjustments. Broker pricing is used mainly when a quoted price is not available, the investment is not priced by the pricing vendors, or when a broker price is more reflective of fair value in the market in which the investment trades. The Company's broker priced investments are classified as Level 2 investments because the broker prices the investment based on similar assets without applying significant adjustments. The Company's restricted investment financial assets as of March 31, 2017 and June 30, 2016 are included within current and long-term restricted investments on the condensed consolidated balance sheets.

The Company's long-term debt is not measured at fair value in the condensed consolidated balance sheets. The fair value of debt is the estimated amount the Company would have to pay to transfer its debt, including any premium or discount attributable to the difference between the stated interest rate and market rate of interest at the balance sheet date. Fair values are based on valuations of similar debt at the balance sheet date and supported by observable market



transactions when available: Level 2 of the fair value hierarchy. At March 31, 2017 and June 30, 2016 the fair value of the Company's debt was not materially different than its carrying value.

Reclassification adjustments for realized gains or losses from available for sale restricted investment securities out of accumulated other comprehensive income are included in the condensed consolidated statements of operations within the insurance recoverables and other income line item.

The Company's contingent consideration liabilities, included in other accrued liabilities on the condensed consolidated balance sheets, are associated with the acquisitions made in the fiscal years ended June 30, 2015 and June 30, 2017. The liabilities are measured at fair value using a probability weighted average of the potential payment outcomes that would occur should certain contract metrics be reached. There is no market data available to use in valuing the contingent consideration; therefore, the Company developed its own assumptions related to the achievement of the metrics to evaluate the fair value of these liabilities. As such, the contingent consideration is classified within Level 3 as described below.

Items classified as Level 3 within the valuation hierarchy, consisting of contingent consideration liabilities related to recent acquisitions, were valued based on various estimates, including probability of success, discount rates and amount of time until the conditions of the contingent payments are achieved. The table below presents a roll-forward of the contingent consideration liabilities valued using Level 3 inputs:

Contingent consideration balance at July 1, 2016	\$	233
Additions for fiscal year 2017 acquisitions		599
Increase in liability related to re-measurement of fair value		22
<b>Contingent consideration balance at March 31, 2017</b>	<b>\$</b>	<b>854</b>

#### **Note 4. Stock-Based Compensation**

The Company has two plans under which outstanding stock-based awards have been issued: the TRC Companies, Inc. Restated Stock Option Plan (the "Restated Plan"), and the Amended and Restated 2007 Equity Incentive Plan (the "2007 Plan"), (collectively "the Plans"). The Company issues new shares or may utilize treasury shares, when available, to satisfy awards under the Plans. Awards are made by the Compensation Committee of the Board of Directors; however, the Compensation Committee has delegated to the Chief Executive Officer ("CEO") the authority to grant awards for up to 10 shares to employees subject to a limitation of 100 shares in any 12 month period.

Stock-based awards under the Plans consist of stock options, restricted stock awards ("RSA's"), restricted stock units ("RSU's") and performance stock units ("PSU's"). As of March 31, 2017, 2,025 shares remained available for grants under the 2007 Plan.

##### Stock-Based Compensation

The Company measures stock-based compensation cost at the grant date based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's condensed consolidated statements of operations. Stock-based compensation expense includes the estimated effects of forfeitures, and estimates of forfeitures will be adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of expense to be recognized in future periods.

During the three and nine months ended March 31, 2017 and March 25, 2016, the Company recognized stock-based compensation expense in cost of services ("COS") and general and administrative expenses within the condensed consolidated statements of operations as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
Cost of services	\$ 733	\$ 794	\$ 2,722	\$ 2,243
General and administrative expenses	1,053	704	2,807	2,035
<b>Total stock-based compensation expense</b>	<b>\$ 1,786</b>	<b>\$ 1,498</b>	<b>\$ 5,529</b>	<b>\$ 4,278</b>

### Stock Options

The Company uses the Black-Scholes option pricing model for determining the estimated grant date fair value for stock options. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected life of the employee stock options. The average expected life is based on the contractual term of the option and expected employee exercise and historical post-vesting employment termination experience. The Company estimates the volatility of its stock using historical volatility in accordance with current accounting guidance. Management determined that historical volatility of TRC common stock is most reflective of market conditions and the best indicator of expected volatility. The dividend yield assumption is based on the Company's historical and expected dividend payouts. There were no stock options granted during the nine months ended March 31, 2017 and March 25, 2016.

A summary of stock option activity for the nine months ended March 31, 2017 under the Plans is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding options as of June 30, 2016 (85 exercisable)</b>	85	\$ 8.28		
Options exercised	(72)	\$ 8.96		
Options expired	(1)	\$ 9.80		
<b>Outstanding options as of March 31, 2017</b>	<b>12</b>	<b>\$ 4.20</b>	<b>1.3</b>	<b>\$ 162</b>
<b>Options exercisable as of March 31, 2017</b>	<b>12</b>	<b>\$ 4.20</b>	<b>1.3</b>	<b>\$ 162</b>
<b>Options vested and expected to vest as of March 31, 2017</b>	<b>12</b>	<b>\$ 4.20</b>	<b>1.3</b>	<b>\$ 162</b>

The aggregate intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or as of March 31, 2017 (for outstanding options), less the applicable exercise price. The closing price of the Company's common stock on the New York Stock Exchange was \$17.45 as of March 31, 2017. The total intrinsic value of options exercised for the nine months ended March 31, 2017 and March 25, 2016 was \$55 and \$124, respectively. The total proceeds received from option exercises for the nine months ended March 31, 2017 and March 25, 2016 was \$638 and \$212, respectively.



*Restricted Stock Awards*

Compensation expense for RSA's is recognized ratably over the vesting term, which is generally four years . The fair value of the RSA's is determined based on the closing market price of the Company's common stock on the grant date. There were no non-vested RSA's as of March 31, 2017 . There were no RSA's granted during the nine months ended March 31, 2017 . As of March 31, 2017 , there was no unrecognized compensation expense related to unvested RSA's under the Plans.

*Restricted Stock Units*

Compensation expense for RSU's is recognized ratably over the vesting term, which is generally four years . The fair value of RSU's is determined based on the closing market price of the Company's common stock on the grant date.

A summary of non-vested RSU activity for the nine months ended March 31, 2017 is as follows:

	<b>Restricted Stock Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
<b>Non-vested units as of June 30, 2016</b>	904	\$ 8.24
Units granted	595	\$ 6.78
Units vested	(370)	\$ 8.18
Units forfeited	(33)	\$ 10.14
<b>Non-vested units as of March 31, 2017</b>	<b>1,096</b>	<b>\$ 7.41</b>

RSU grants totaled 0 and 595 shares with a total weighted-average grant date fair value of \$0 and \$4,036 during the three and nine months ended March 31, 2017 . RSU grants totaled 170 and 440 shares with a total weighted-average grant date fair value of \$1,086 and \$4,112 during the three and nine months ended March 25, 2016 . The total fair value of RSU's vested during the three and nine months ended March 31, 2017 was \$352 and \$3,153 , respectively. The total fair value of RSU's vested during the three and nine months ended March 25, 2016 was \$112 and \$4,058 , respectively.

As of March 31, 2017 , there was \$6,721 of total unrecognized compensation expense related to unvested RSU's under the Plans, and this expense is expected to be recognized over a weighted-average period of 2.7 years.

*Performance Stock Units*

Compensation expense for PSU's is recognized over the vesting term, which is generally four years , if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each reporting period for awards with performance conditions and adjusts compensation expense based on its probability assessment. The fair value of the PSU's is determined based on the closing market price of the Company's common stock on the grant date.

The number of PSU's earned is determined based on the Company's performance against predefined targets. The range of payout is zero to 150% of the number of granted PSU's. The number of PSU's earned is determined based on actual performance at the end of the performance period. PSU grants totaled 568 and 413 with a total weighted-average grant date fair value of \$3,152 and \$3,697 during the nine months ended March 31, 2017 and March 25, 2016 , respectively. The total fair value of PSU's vested during the nine months ended March 31, 2017 , was \$3,107 . The total fair value of PSU's vested during the nine months ended March 25, 2016 , was \$4,097 .

At March 31, 2017 , there was \$5,203 of total unrecognized compensation expense related to non-vested PSU's; this expense is expected to be recognized over a weighted-average period of 2.4 years.

A summary of non-vested PSU activity for the nine months ended March 31, 2017 is as follows:

	PSU Original Awards	PSU Adjustments <sup>(1)</sup>	Total PSU Awards	Weighted- Average Grant Date Fair Value
<b>Non-vested units as of June 30, 2016</b>	895	—	895	\$ 8.74
Units granted	512	56	568	\$ 6.15
Units vested	(320)	(56)	(376)	\$ 7.75
Units forfeited	(91)	—	(91)	\$ 9.68
<b>Non-vested units as of March 31, 2017</b>	<b>996</b>	<b>—</b>	<b>996</b>	<b>\$ 7.59</b>

<sup>(1)</sup> Represents the additional number of PSU's issued based on the final performance condition achieved at the end of the respective performance period.

### Note 5. Earnings per Share

Basic earnings per share ("EPS") is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is computed using the treasury stock method for stock options, warrants, non-vested restricted stock awards and units, and non-vested performance stock units. The treasury stock method assumes conversion of all potentially dilutive shares of common stock with the proceeds from assumed exercises used to hypothetically repurchase stock at the average market price for the period. Diluted EPS is computed by dividing net income applicable to the Company by the weighted-average common shares and potentially dilutive common shares that were outstanding during the period.

The following table sets forth the computations of basic and diluted EPS for the three and nine months ended March 31, 2017 and March 25, 2016 :

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
<b>Net income (loss) applicable to TRC Companies, Inc.</b>	<b>\$ 4,498</b>	<b>\$ (14,297)</b>	<b>\$ 12,135</b>	<b>\$ (5,868)</b>
Basic weighted-average common shares outstanding	31,605	31,045	31,401	30,886
Effect of dilutive stock options, RSA's, RSU's and PSU's	643	—	536	—
<b>Diluted weighted-average common shares outstanding</b>	<b>32,248</b>	<b>31,045</b>	<b>31,937</b>	<b>30,886</b>
<b>Earnings per common share applicable to TRC Companies, Inc.</b>				
<b>Basic earnings per common share</b>	<b>\$ 0.14</b>	<b>\$ (0.46)</b>	<b>\$ 0.39</b>	<b>\$ (0.19)</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.14</b>	<b>\$ (0.46)</b>	<b>\$ 0.38</b>	<b>\$ (0.19)</b>
Anti-dilutive stock options, RSA's, RSU's and PSU's, excluded from the calculation	965	1,916	1,071	1,916

## Note 6. Accounts Receivable

The current portion of accounts receivable as of March 31, 2017 and June 30, 2016 , were comprised of the following:

	March 31, 2017	June 30, 2016
Billed	\$ 114,161	\$ 90,194
Unbilled	72,735	64,954
Retainage	4,326	2,429
<b>Total accounts receivable - gross</b>	<b>191,222</b>	<b>157,577</b>
Less allowance for doubtful accounts	(8,153)	(8,297)
<b>Total accounts receivable, less allowance for doubtful accounts</b>	<b>\$ 183,069</b>	<b>\$ 149,280</b>

## Note 7. Other Accrued Liabilities

As of March 31, 2017 and June 30, 2016 , other accrued liabilities were comprised of the following:

	March 31, 2017	June 30, 2016
Contract costs	\$ 40,471	\$ 40,343
Legal accruals	8,909	5,232
Lease obligations	5,316	5,564
Efficiency rebates payable	16,731	25
Other	12,488	6,862
<b>Total other accrued liabilities</b>	<b>\$ 83,915</b>	<b>\$ 58,026</b>

## Note 8. Business Acquisitions, Goodwill and Other Intangible Assets

### Fiscal 2017 Acquisition

On March 31, 2017, the Company acquired all of the outstanding stock of CALTROP Corp. ("Caltrop"), headquartered in Riverside, California. Caltrop provides engineering, construction management and inspection services to customers in the transportation infrastructure market. The initial purchase price of \$28,177 consisted of cash of \$16,310 payable at closing, a three-year subordinated promissory note in the principal amount of \$8,500 , and an estimated net working capital payment due of \$3,367 . Goodwill of \$15,717 , none of which is expected to be tax deductible, and other intangible assets of \$7,600 were recorded as a result of this acquisition. The goodwill is primarily attributable to the synergies and ancillary growth opportunities expected to arise after the acquisition. The estimated fair values of assets and liabilities of the Caltrop acquisition have been recorded in the Infrastructure operating segment and are included in the unaudited balance sheet based on a preliminary allocation of the purchase price. These allocations will be finalized as soon as the remaining information becomes available and working capital adjustments are completed, which will be within one year from the acquisition date. The impact of this acquisition was not material to the Company's condensed consolidated balance sheets and results of operations.

### Fiscal 2016 Acquisition

On November 30, 2015 , the Company acquired the Professional Services business of Willbros Group ("Willbros" or "Oil and Gas") in an all cash transaction. The \$124,498 purchase price consisted of (i) an initial cash payment of \$119,955 paid at closing, and, (ii) a second cash payment due of \$7,500 payable at the earlier of certain Willbros

contract novations (or written approval of a subcontract) and Willbros obtaining certain consents, or March 15, 2016, net of a working capital adjustment due from Willbros of \$2,957. The second cash payment was made in two tranches, with \$2,354 paid in March 2016 and the remaining balance paid in July 2016 in conjunction with the final net working capital settlement. Goodwill of \$60,294, all of which is expected to be tax deductible, and other intangible assets of \$44,500 were recorded as a result of this acquisition.

The following summarizes the estimated fair values of the Oil and Gas assets acquired and liabilities assumed at the acquisition date, as well as measurement period adjustments:

	November 30, 2015 (As Initially Reported)	Measurement Period Adjustments	November 30, 2015 (As Adjusted)
Cash and cash equivalents	\$ 355	\$ —	\$ 355
Accounts receivable	26,406	1,857	28,263
Prepaid expenses and other current assets	7,276	(48)	7,228
Property and equipment	3,552	—	3,552
Identifiable intangible assets:			
Customer relationships and backlog	43,500	—	43,500
Internally developed software	1,000	—	1,000
Total identifiable intangible assets	44,500	—	44,500
Goodwill	64,673	(4,379)	60,294
Other non-current assets	20,683	—	20,683
Accounts payable	(2,587)	43	(2,544)
Accrued compensation and benefits	(7,199)	(2)	(7,201)
Other accrued liabilities	(5,210)	100	(5,110)
Current portion of long-term debt	(6,447)	(38)	(6,485)
Long-term debt, net of current portion	(18,547)	—	(18,547)
Non-controlling interest	—	(490)	(490)
Net assets acquired	\$ 127,455	\$ (2,957)	\$ 124,498

Customer relationships and backlog represent the fair value of existing contracts and the underlying customer relationships. The backlog has a 1 year life and customer relationships have lives ranging from 12 years to 15 years (weighted average lives of 6 years). The internally developed software has a life of approximately 5 years (weighted average life of 5 years).

The goodwill recognized is attributable to the future strategic growth opportunities arising from the acquisition, Oil and Gas's highly skilled assembled workforce (which does not qualify for separate recognition) and the expected cost synergies of the combined operations.

The unaudited pro forma financial information summarized in the following table gives effect to the Oil and Gas acquisition assuming it occurred on July 1, 2014. These unaudited pro forma operating results do not assume any impact from revenue, cost or other operating synergies that are expected as a result of the acquisition. Pro forma adjustments have been made to reflect amortization of the identified intangible assets for the related periods, as well as the amortization of deferred debt issuance costs incurred. Identifiable intangible assets are being amortized on a basis approximating the economic value derived from those assets. These unaudited pro forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the acquisition occurred on July 1, 2014, nor does the information project results for any future period.

**Nine Months Ended  
March 25, 2016**

Gross revenue	\$	526,384
Net service revenue	\$	383,374
Net income applicable to TRC Companies, Inc.	\$	(8,368)
Basic earnings per common share	\$	(0.27)
Diluted earnings per common share	\$	(0.27)

**Goodwill**

The Company assesses goodwill for impairment on an annual basis as of each fiscal April period end, or at an interim date when events or changes in the business environment would more likely than not reduce the fair value of a reporting unit below its carrying value. As of March 31, 2017, the Company had \$91,054 of goodwill, and does not believe there were any events or changes in circumstances since the last goodwill assessment as of April 29, 2016 that would indicate the fair value of goodwill was more likely than not reduced to below its carrying value. Accordingly, goodwill was not tested for impairment during the current fiscal quarter.

The carrying amount of goodwill for the nine months ended March 31, 2017 by operating segment are as follows:

Operating Segment	Gross Balance, July 1, 2016	Accumulated Impairment Losses	Balance, July 1, 2016	Additions / Adjustments	Gross Balance, March 31, 2017	Accumulated Impairment Losses	Balance, March 31, 2017
Power	\$ 28,506	\$ (14,506)	\$ 14,000	\$ —	\$ 28,506	\$ (14,506)	\$ 14,000
Environmental	40,889	(17,865)	23,024	—	40,889	(17,865)	23,024
Infrastructure	7,224	(7,224)	—	15,717	22,941	(7,224)	15,717
Oil and Gas	60,294	(21,981)	38,313	—	60,294	(21,981)	38,313
	<u>\$ 136,913</u>	<u>\$ (61,576)</u>	<u>\$ 75,337</u>	<u>\$ 15,717</u>	<u>\$ 152,630</u>	<u>\$ (61,576)</u>	<u>\$ 91,054</u>

**Other Intangible Assets**

Identifiable intangible assets as of March 31, 2017 and June 30, 2016 are included in intangible assets, net on the condensed consolidated balance sheets and were comprised of:

Identifiable intangible assets	March 31, 2017			June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
With determinable lives:						
Customer relationships	\$ 67,210	\$ (22,276)	\$ 44,934	\$ 59,218	\$ (14,933)	\$ 44,285
Contract backlog	2,700	(278)	2,422	900	(525)	375
Technology	1,000	(267)	733	1,000	(117)	883
	<u>70,910</u>	<u>(22,821)</u>	<u>48,089</u>	<u>61,118</u>	<u>(15,575)</u>	<u>45,543</u>
With indefinite lives:						
Engineering licenses	426	—	426	426	—	426
	<u>\$ 71,336</u>	<u>\$ (22,821)</u>	<u>\$ 48,515</u>	<u>\$ 61,544</u>	<u>\$ (15,575)</u>	<u>\$ 45,969</u>

Identifiable intangible assets with determinable lives are amortized over their estimated useful lives and are also reviewed for impairment if events or changes in circumstances indicate that their carrying amount may not be realizable.

Identifiable intangible assets with determinable lives are being amortized over a weighted-average period of approximately 7 years. The weighted-average period of amortization is approximately 7 years for customer relationship assets. The amortization of intangible assets for the three and nine months ended March 31, 2017 was \$2,813 and \$8,146 . The amortization of intangible assets for the three and nine months ended March 25, 2016 was \$3,162 and \$5,078 .

Estimated amortization expense of intangible assets for the remainder of fiscal year 2017 and succeeding fiscal years is as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2017	\$ 3,191
2018	12,368
2019	10,103
2020	9,146
2021	8,574
2022 and Thereafter	4,707
<b>Total</b>	<b>\$ 48,089</b>

On an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, the fair value of the indefinite-lived intangible assets is evaluated by the Company to determine if an impairment charge is required. The Company performed its most recent annual impairment assessment as of April 29, 2016, which resulted in no impairments to intangible assets. There were no events or changes in circumstances that would indicate the fair value of intangible assets was reduced to below its carrying value during the nine months ended March 31, 2017 , and therefore intangible assets were not tested for impairment.

## **Note 9. Long-Term Debt and Capital Lease Obligations**

### *FY2017 Revolving Credit Facility*

On January 31, 2017, the Company entered into a credit agreement (the “Credit Agreement”) with Citizens Bank, N.A. as lender, LC issuer, administrative agent, sole lead arranger, and sole book runner; BMO Harris Bank, N.A. as lender, LC issuer and syndication agent; KeyBank, N.A. as lender and documentation agent, and five other banks as lenders. The Credit Agreement provides the Company with a \$250,000 five - year secured revolving credit facility (“Revolving Facility”) with a sublimit of \$15,000 available for the issuance of letters of credit. The Credit Agreement replaced the Company’s prior credit facility with Citizens Bank, N.A. (the “Prior Credit Agreement”) converting the existing amortizing term loan and revolving borrowing structure to a non-amortizing, fully revolving format. The Revolving Facility will be available for working capital and general corporate purposes as permitted under the Credit Agreement. The Credit Agreement includes borrowing capacity for letters of credit and for borrowings on same-day notice, referred to as “swingline loans.” Borrowings under the Credit Agreement are subject to the satisfaction of customary conditions, including absence of defaults and accuracy of representations and warranties. Under the terms of the Credit Agreement, the amount of the Revolving Facility may be increased through incremental revolving commitments, subject to a cap of an additional \$75,000 . The commitments under the Credit Agreement may be reduced, in whole or in part, without premium or penalty. Any borrowings outstanding under the Credit Agreement will mature on January 31, 2022.

Amounts outstanding under the Credit Agreement bear interest at the Base Rate (as defined, generally the prime rate) plus a margin of 0.50% to 1.75% , or at the Eurodollar Rate (as defined, generally the Libor rate) plus a margin of 1.50% to 2.75% , based on the Company's Leverage Ratio (as defined). In addition to these borrowing rates, there is a commitment fee which ranges from 0.20% to 0.50% (based on the Leverage Ratio) on any unused commitments. The applicable fees for issuance of letters of credit under the Revolving Facility is a range of 1.50% to 2.75% , also based on the Leverage Ratio.

The Company's obligations under the Credit Agreement are secured by a pledge of substantially all of its assets and guaranteed by its principal operating subsidiaries. The Credit Agreement also contains cross-default provisions which become effective if the Company defaults on other indebtedness.

The Credit Agreement contains customary restrictive covenants that limit the Company's ability to, among other things: incur additional indebtedness or enter into guarantees; enter into sale/leaseback transactions; make investments, loans or acquisitions; grant or incur liens on its assets; sell its assets; engage in mergers, consolidations, liquidations or dissolutions; engage in transactions with affiliates; and make restricted payments. Under the Credit Agreement the Company is required to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 and to not permit its leverage ratio to exceed 3.00 to 1.00 .

On January 31, 2017 the Company utilized \$15,000 of cash on hand to pay down the existing \$69,375 of Term Loan borrowings outstanding under the Prior Credit Agreement, resulting in an initial \$54,375 borrowed under the Credit Agreement's Revolving Facility.

At March 31, 2017 , the Company had \$65,375 outstanding under the Credit Agreement. Funds available to borrow under the Credit Agreement, after consideration of letters of credit outstanding, were \$86,306 at March 31, 2017 .

In accounting for the transaction costs incurred in conjunction with the Credit Agreement, an additional \$755 was capitalized, the Company carried forward \$2,278 total costs incurred from Prior Credit Agreement, and immediately expensed \$293 for costs associated with a non-participating lender. The March 31, 2017 balance of \$2,932 will be amortized ratably over the term of the Credit Agreement.

#### FY2016 Revolving Credit Facility

On November 30, 2015, the Company entered into a five -year credit agreement (the "Prior Credit Agreement") with Citizens Bank, N.A. as lender, LC issuer, administrative agent, sole lead arranger, and sole book runner; BMO Harris Bank, N.A. as lender, LC issuer and syndication agent; KeyBank, N.A. as lender and document agent, and five other banks as lenders. The Prior Credit Agreement provided the Company with an aggregate borrowing capacity of \$175,000 , consisting of a \$100,000 five -year secured revolving credit facility ("Prior Revolving Facility") with a sub-limit of \$15,000 available for the issuance of letters of credit, as well as a five -year secured \$75,000 term loan ("Term Loan").

The proceeds of the Term Loan, together with cash on hand and proceeds from borrowing under the Prior Revolving Facility, were used to pay the purchase price for Willbros Professional Services ("Oil and Gas") and to fund transaction costs incurred in connection with the Oil and Gas acquisition. The Prior Revolving Facility also is available for working capital and general corporate purposes. The Prior Revolving Facility included borrowing capacity for letters of credit and for borrowings on same-day notice, referred to as "swingline loans." Borrowings under the Prior Revolving Facility were subject to the satisfaction of customary conditions, including absence of defaults and accuracy of representations and warranties. The Company could request an increase in the amount of the Credit Agreement up to an additional \$75,000 , through additional term or revolving loans.

Borrowings outstanding under the Prior Revolving Facility would have matured on November 30, 2020. The Term Loan amortized in quarterly installments payable on the last day of each March, June, September, and December, commencing on March 31, 2016 in amounts equal to 1.875% of the term loan made or outstanding, with the balance payable on November 30, 2020 (the "Term Loan Maturity Date"). In addition, the Company was required, subject to certain exceptions, to make payments on the Term Loan (a) based on a stated percentage of Excess Cash Flow, either 50% or 0% depending on whether the Company's consolidated leverage is above or below 2 times adjusted EBITDA as defined in the Prior Credit Agreement, (b) in an amount of 100% of net cash proceeds from asset sales subject to certain reinvestment rights, (c) in an amount of 100% of net cash proceeds of any issuance of debt other than debt permitted to be incurred under the Prior Credit Agreement, and (d) in an amount of 100% of net cash proceeds from events of loss subject to certain reinvestment rights. The borrowings under the Prior Credit Agreement could be reduced, in whole or in part, without premium or penalty.



Amounts outstanding under the Prior Credit Agreement bore interest at the Base Rate (as defined, generally the prime rate) plus a margin of 0.50% to 1.25% , or at the Eurodollar Rate (as defined, generally the LIBOR rate) plus a margin of 1.50% to 2.25% , based on the Company's Leverage Ratio (as defined). In addition to these borrowing rates, there was a commitment fee which ranged from 0.20% to 0.375% on any unused commitments. The applicable fees for issuance of letters of credit under the Prior Revolving Facility was a range from 1.50% to 2.25% .

The Company's obligations under the Prior Credit Agreement were secured by a pledge of substantially all of its assets and guaranteed by its principal operating subsidiaries. The Prior Credit Agreement also contained cross-default provisions which became effective if the Company defaulted on other indebtedness.

The Prior Credit Agreement contained various customary restrictive covenants that limited the Company's ability to, among other things: incur additional indebtedness including guarantees; enter into sale/leaseback transactions; make investments, loans or acquisitions; grant or incur liens on its assets; sell its assets; engage in mergers, consolidations, liquidations or dissolutions; engage in transactions with affiliates; and make restricted payments. Under the Prior Credit Agreement the Company was required to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 and to not permit its leverage ratio to exceed 3.00 to 1.00 . The Credit Agreement also limited the payment of cash dividends to \$10,000 in aggregate during its term.

On November 30, 2015, the Company borrowed \$102,000 under the Credit Agreement to partially fund the Oil and Gas acquisition. The borrowing was comprised of a full borrowing of the \$75,000 term loan and a \$27,000 borrowing under the Prior Revolving Facility. Borrowings under the Term Loan bore interest at a stated rate of 2.11% and had an effective interest rate of 2.15% when paid in full at January 31, 2017.

#### Contractor-owned, contractor-operated (CoCo) facility debt

As of March 31, 2017 , the Company had approximately \$16,922 of debt obligations ("CoCo" debt) assumed in the Oil and Gas acquisition, of which \$6,766 was current. A third party finance company had provided financing to Oil and Gas in conjunction with the construction of fueling facilities for the federal government pursuant to three government contracts. Upon acceptance of the constructed facilities, the federal government pays Oil and Gas in equal monthly installments over the subsequent five years . Therefore, as of March 31, 2017 , the Company also had recorded approximately \$16,922 of receivables which were acquired in the transaction, of which \$6,766 was current. These amounts were recorded within other assets and represent the amount due from the federal government for the construction of the fueling facilities. As of March 31, 2017 , the government has provided acceptance and final funding on all three contracts.

The principal amounts due under the Company's remaining CoCo debt obligations as of March 31, 2017 for the remainder of fiscal year 2017 and succeeding fiscal years is as follows:

2017	\$	2,103
2018		5,734
2019		3,717
2020		3,980
2021		1,388
<b>Total</b>	<b>\$</b>	<b>16,922</b>

#### Other Notes Payable

In July 2016, the Company financed \$3,838 of insurance premiums payable in seven equal monthly installments of \$552 each, including a finance charge of 2.19% . As of March 31, 2017 , the balance outstanding under this agreement was \$0 .



In conjunction with the Caltrop acquisition, the Company entered into a three-year subordinated promissory note in the principal amount of \$8,500 bearing 3% interest, of which \$4,000 is current.

In conjunction with the Oil and Gas acquisition, the Company was required to remit a second cash payment of \$7,500 payable at the earlier of certain Willbros contract novations (or written approval of a subcontract) and Willbros obtaining certain consents, or March 15, 2016. The second cash payment was made in two tranches, with \$2,354 paid in March 2016 and the remaining balance paid in July 2016 in conjunction with the final net working capital settlement.

#### **Note 10. Variable Interest Entity**

In determining whether the Company is the primary beneficiary of an entity, it considers a number of factors, including its ability to direct the activities that most significantly affect the entity's economic success, the Company's contractual rights and responsibilities under the arrangement and the significance of the arrangement to each party. These considerations impact the way the Company accounts for its existing collaborative and joint venture relationships and determines the consolidation of companies or entities with which the Company has collaborative or other arrangements.

##### WBA

Willbros Engineers LLC, which the Company acquired in fiscal 2016, was party to an option and service arrangement with the equity owners of WBA, a limited liability company. WBA is considered a VIE due to the lack of decision-making rights by its equity holders. The Company consolidates the operations of WBA, as it retains the contractual power to direct the activities of WBA which most significantly and directly impact its economic performance. The Company also has the obligation to absorb losses and the right to receive residual returns of WBA. The activity of WBA is not significant to the overall performance of the Company. The assets of WBA are available for the Company's general business use outside the context of WBA. In consolidation, as of March 31, 2017, \$453 of cash and cash equivalents, \$204 of accounts receivable and \$5 of other current liabilities were attributable to WBA.

While the Company is currently in the process of winding down the operations of WBA, it has an obligation to fund operating activities not covered by WBA's available cash and cash flow from operations. During fiscal year 2017, the Company provided \$7 of financial support to WBA. The Company does not expect ongoing funding obligations to be material.

#### **Note 11. Income Taxes**

The Company's effective tax rate was approximately 32.6% and 42.6% for the nine months ended March 31, 2017 and March 25, 2016 respectively. The primary reconciling items between the federal statutory rate of 35.0% and the Company's overall effective tax rate for the nine months ended March 31, 2017 were the effect of state income taxes offset by tax benefits related to the U.S. Research and Development credit, U.S. Domestic Production Activities deduction and the effective settlement of uncertain tax positions. The primary reconciling items between the federal statutory rate of 35.0% and the Company's overall effective tax rate for the nine months ended March 25, 2016 were the effect of state income taxes offset by discrete tax benefits related to research and development tax credits and U.S. Domestic Production Activities.

As of March 31, 2017, the recorded liability for uncertain tax positions under the measurement criteria of Accounting Standards Codification ("ASC") Topic 740, Income Taxes, was \$939. The effective settlement of uncertain tax positions resulted in a decrease in the recorded liability of \$1,344 during the nine months ended March 31, 2017, which resulted in a net decrease to the provision for income taxes of \$294. The Company does not expect the amount of unrecognized tax benefits to materially change within the next twelve months.

As a result of the acquisition of Caltrop Corporation in the nine months ended March 31, 2017, the Company recorded a deferred tax liability of \$2,577, primarily related to differences in the U.S. financial reporting and historical tax basis in intangible assets. In addition, the Company recorded an uncertain tax position liability of \$62 for tax filings prior to the acquisition, this uncertain tax position liability was offset by an indemnity receivable.

As a result of the early adoption of ASU 2016-09 in the first quarter of fiscal 2017, excess tax benefits and tax deficiencies will be prospectively classified to the statement of operations instead of additional paid-in capital. The Company's effective tax rate for the nine months ended March 31, 2017 was not materially impacted by the adoption of ASU 2016-09. The Company recorded a net tax benefit of \$21 during the nine months ended March 31, 2017 which decreased the provision for income taxes.

In the first quarter of fiscal year 2017, the IRS concluded its income tax examination for fiscal year 2014. No adjustments were proposed.

## **Note 12. Operating Segments**

To more clearly communicate the Company's capabilities and focus to the marketplace, beginning in fiscal 2017, the Company renamed its Energy segment "Power" and its Pipeline Services segment "Oil and Gas." The Company manages its business under the following four operating segments:

**Power (formerly Energy):** The Power operating segment provides services to a range of clients including energy companies, power utilities, other commercial entities, and state and federal government entities. The Company's services include program management, engineer/procure/construct projects, design, and consulting. The Company's typical projects involve upgrades, design and new construction for electric transmission and distribution systems and substations; energy efficiency program design and management; security assessments; and renewable energy development and power generation.

**Environmental:** The Environmental operating segment provides services to a wide range of clients including industrial, transportation, energy and natural resource companies, as well as federal, state and municipal agencies. The Environmental operating segment is organized to focus on key areas of demand including: environmental management of buildings and facilities; air quality measurements and modeling of potential air pollution impacts; water quality and water resource management; assessment and remediation of contaminated sites and buildings; hazardous waste management; construction monitoring, inspection and management; environmental, health and safety management and sustainability advisory services; compliance auditing and strategic due diligence; environmental licensing and permitting of a wide variety of projects; and natural and cultural resource assessment, protection and management.

**Infrastructure:** The Infrastructure operating segment provides services related to the expansion of infrastructure capacity and the rehabilitation of overburdened and deteriorating infrastructure systems. The Company's client base is predominantly state and municipal governments as well as select commercial developers. In addition, the Company provides infrastructure services on projects originating in its other operating segments. Primary services include: roadway, bridge and related surface transportation design; structural design and inspection of bridges; program management; construction engineering inspection and construction management for roads and bridges; civil engineering for municipalities and public works departments; geotechnical engineering services; and, design and construction management.

**Oil & Gas (formerly Pipeline Services):** Acquired in November 2015, the Oil & Gas operating segment provides pipeline and facilities engineering; engineer, procure, and construct ("EPC") services; engineer, procure, construct and management ("EPCm") services; field services and integrity services to the oil and gas transmission and midstream markets, as well as at government facilities. The Company specializes in providing engineering services to assist clients in designing, engineering and constructing or expanding pipeline systems, compressor stations, pump stations, fuel storage facilities, terminals, and field gathering and production facilities. The Company's expertise extends to the engineering of a wide range of project peripherals, including various types of support buildings and utility systems, power generation and electrical transmission systems, communications systems, fire protection, water and sewage treatment, water transmission, roads and railroad sidings. The Company also provides project management, engineering and material procurement services to the refining industry and government agencies, including mechanical, civil, structural, electrical instrumentation/controls and environmental engineering. The Company provides full-service integrity

management program offerings including program development, data services, risk analysis, corrosion evaluation, and integrity engineering. The Company is partnered with Google to provide a cloud-based pipeline life-cycle integrity management solution, Integra Link™, which utilizes Google's geospatial technology platform to help oil and gas pipeline companies visualize and utilize their data and information.

The Company's chief operating decision maker ("CODM") is its CEO. The Company's CEO manages the business by evaluating the financial results of the four operating segments focusing primarily on segment revenue and segment profit. The Company utilizes segment revenue and segment profit because it believes they provide useful information for effectively allocating resources among operating segments; evaluating the health of its operating segments based on metrics that management can actively influence; and gauging its investments and its ability to service, incur or pay down debt. Specifically, the Company's CEO evaluates segment revenue and segment profit and assesses the performance of each operating segment based on these measures, as well as, among other things, the prospects of each of the operating segments and how they fit into the Company's overall strategy. The Company's CEO then decides how resources should be allocated among its operating segments. The Company does not track its assets by operating segment, and consequently, it is not practical to show assets by operating segment. Segment profit includes all operating expenses except the following: costs associated with providing corporate shared services (including certain depreciation and amortization), goodwill and intangible asset write-offs, and stock-based compensation expense. Depreciation expense is primarily allocated to operating segments based upon their respective use of total operating segment office space. Assets solely used at the Corporate level are not allocated to the operating segments. Inter-segment balances and transactions are not material. The accounting policies of the operating segments are the same as those for the Company as a whole, except as discussed herein.

On July 1, 2016 the Company made certain changes to its management reporting structure which resulted in a change to the composition of the Infrastructure operating segment. Certain corporate employees were transferred to the Infrastructure operating segment. As a result, beginning in fiscal year 2017 the Company reports its financial performance based on the current reporting structure. The Company has recast certain prior period amounts to conform to the way it internally manages and monitors segment performance. These changes had no impact on consolidated net income or cash flows and were not material to the segment measurements presented.

The following tables present summarized financial information for the Company's operating segments (for the periods noted below):

	Power	Environmental	Infrastructure	Oil & Gas	Total
<b>Three months ended March 31, 2017:</b>					
Gross revenue	\$ 69,074	\$ 73,557	\$ 18,518	\$ 27,828	\$ 188,977
Net service revenue	41,282	49,855	14,673	22,280	128,090
Segment profit	9,110	8,651	3,202	2,045	23,008
Depreciation	435	628	141	300	1,504
Amortization	608	237	—	1,842	2,687
<b>Three months ended March 25, 2016:</b>					
Gross revenue	\$ 46,280	\$ 65,465	\$ 18,721	\$ 26,526	\$ 156,992
Net service revenue	35,974	50,023	13,036	21,560	120,593
Segment profit (loss)	8,049	7,922	2,536	(3,128)	15,379
Acquisition and integration expense	—	—	—	1,171	1,171
Depreciation	473	615	119	519	1,726
Amortization	260	279	—	2,454	2,993
	Power	Environmental	Infrastructure	Oil & Gas	Total
<b>Nine months ended March 31, 2017:</b>					
Gross revenue	\$ 193,929	\$ 227,655	\$ 62,873	\$ 81,949	\$ 566,406
Net service revenue	118,670	149,074	45,922	64,951	378,617
Segment profit	26,578	26,887	10,984	4,883	69,332
Depreciation	1,316	1,929	418	963	4,626
Amortization	1,101	765	—	5,901	7,767
<b>Nine months ended March 25, 2016:</b>					
Gross revenue	\$ 133,556	\$ 219,233	\$ 60,998	\$ 34,543	\$ 448,330
Net service revenue	110,106	153,011	40,308	27,546	330,971
Segment profit (loss)	24,831	27,451	7,961	(4,289)	55,954
Acquisition and integration expense	—	—	—	1,171	1,171
Depreciation	1,431	1,877	341	786	4,435
Amortization	858	944	—	2,756	4,558

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
<b>Gross revenue</b>				
Gross revenue from reportable operating segments	\$ 188,977	\$ 156,992	\$ 566,406	\$ 448,330
Reconciling items <sup>(1)</sup>	747	1,138	2,831	3,002
<b>Total consolidated gross revenue</b>	<b>\$ 189,724</b>	<b>\$ 158,130</b>	<b>\$ 569,237</b>	<b>\$ 451,332</b>
<b>Net service revenue</b>				
Net service revenue from reportable operating segments	\$ 128,090	\$ 120,593	\$ 378,617	\$ 330,971
Reconciling items <sup>(1)</sup>	635	660	1,769	1,827
<b>Total consolidated net service revenue</b>	<b>\$ 128,725</b>	<b>\$ 121,253</b>	<b>\$ 380,386</b>	<b>\$ 332,798</b>
<b>Income (loss) from operations before taxes</b>				
Segment profit from reportable operating segments	\$ 23,008	\$ 15,379	\$ 69,332	\$ 55,954
Corporate shared services <sup>(2)</sup>	(13,889)	(11,898)	(42,804)	(32,434)
Goodwill impairment	—	(24,465)	—	(24,465)
Stock-based compensation expense	(1,786)	(1,498)	(5,529)	(4,278)
Unallocated acquisition and integration expenses	—	(435)	—	(2,553)
Unallocated depreciation and amortization	(323)	(385)	(996)	(1,155)
Interest income	391	189	955	326
Interest expense	(1,201)	(1,073)	(2,887)	(1,562)
<b>Total consolidated income (loss) from operations before taxes</b>	<b>\$ 6,200</b>	<b>\$ (24,186)</b>	<b>\$ 18,071</b>	<b>\$ (10,167)</b>
<b>Acquisition and integration expenses</b>				
Acquisition and integration expenses from reportable operating segments	\$ —	\$ 1,171	\$ —	\$ 1,171
Unallocated acquisition and integration expenses	—	435	—	2,553
<b>Total consolidated acquisition and integration expenses</b>	<b>\$ —</b>	<b>\$ 1,606</b>	<b>\$ —</b>	<b>\$ 3,724</b>
<b>Depreciation and amortization</b>				
Depreciation and amortization from reportable operating segments	\$ 4,191	\$ 4,719	\$ 12,393	\$ 8,993
Unallocated depreciation and amortization	323	385	996	1,155
<b>Total consolidated depreciation and amortization</b>	<b>\$ 4,514</b>	<b>\$ 5,104</b>	<b>\$ 13,389</b>	<b>\$ 10,148</b>

<sup>(1)</sup> Amounts represent certain unallocated corporate amounts not considered in the CODM's evaluation of operating segment performance.

<sup>(2)</sup> Corporate shared services consist of centrally managed functions in the following areas: accounting, treasury, information technology, legal, human resources, marketing, internal audit and executive management such as the CEO and various executives. These costs and other items of a general corporate nature are not allocated to the Company's four operating segments.

**Note 13. Commitments and Contingencies****Exit Strategy Contracts**

The Company has entered into a number of long-term contracts pursuant to its Exit Strategy program under which it is obligated to complete the remediation of environmental conditions at covered sites. The Company assumes the risk for remediation costs for pre-existing environmental conditions and believes that through in-depth technical analysis, comprehensive cost estimation and creative remedial approaches it is able to execute strategies which protect the Company's return on these projects. The Company's client pays a fixed price and, as additional protection, for a majority of the contracts the client also pays for a cleanup cost cap insurance policy. The policy, which includes the Company as a named or additional insured party, provides coverage for cost increases from unknown or changed conditions up to a specified maximum amount significantly in excess of the estimated cost of remediation. The Company believes that it is adequately protected from risk on these projects and that it is not likely that it will incur material losses in excess of applicable insurance. However, because several projects are near the term or financial limits of the insurance, the Company believes it is reasonably possible that events could occur under certain circumstances which could be material to the Company's consolidated financial statements. With respect to these projects, there is a wide range of potential outcomes that may result in costs being incurred beyond the limits or term of insurance, such as: (i) greater than expected volumes of contaminants requiring remediation; (ii) treatment systems requiring operation beyond the insurance term; and (iii) greater than expected allocable share of the ultimate remedy. The Company does not believe these outcomes are likely, and the exact nature, impact and duration of any such occurrence could vary due to a number of factors. Accordingly, the Company is unable to provide an estimate of potential loss with a reasonable degree of accuracy. Nevertheless, if these events were to occur, the Company believes that it is reasonably possible that the amount of costs currently accrued, which represents the Company's best estimate, could increase by as much as \$24,200, of which \$4,000 would be covered by insurance.

With respect to one of the projects noted above, the regulatory agency charged with oversight of the project approved a remedial plan that is more expensive than the remedy that had been proposed by the Company. A cost allocation among the potentially responsible parties has not been finalized. However, the Company (and the party from whom it assumed site responsibility) did not contribute in any way to the site contamination, and the Company believes that it has meritorious defenses to liability and that it will not ultimately be responsible for any material remedial costs attributable to the more costly selected remedy. Nevertheless, due to uncertainty over the cost allocation process, it is reasonably possible that the Company's recorded estimate could change. With respect to another one of these projects, the regulatory agency charged with oversight of the project selected a remedy that appears to be consistent with regulatory guidance and the Company's estimates. However, until the final remedy is formally adopted following a public notice period, it remains reasonably possible that the selected remedial alternative could change and the related costs could increase. The Company's estimated share of the potential remedial cost changes related to these two projects range from \$0 to \$18,600.

The Company adjusts all of its recorded liabilities as further information develops or circumstances change. The Company is unable to accurately project the time period over which these amounts would ultimately be paid out, however the Company estimates that any potential payments could be made over a 1 to 5 year period.

**Contract Damages/ Contract Loss**

The Company has entered into contracts which, among other things, require completion of the specified scope of work within a defined period of time or a defined budget. Certain of those contracts provide for the assessment of liquidated or other damages if certain project objectives are not met pursuant to the terms of the contract. At present, the Company does not believe a material assessment of such potential damages is likely.

Furthermore, with respect to one specific fixed price project, there are tasks within the specified scope of work that may result in costs being incurred beyond the currently defined budget. The Company does not believe this outcome is likely, and the exact impact and duration of any such occurrence could vary due to a number of factors. Nevertheless, if these events were to occur, the Company believes that it is reasonably possible that the amount of costs currently accrued, which represents the Company's best estimate, could increase between the range of \$0 to \$6,000 .

#### Government Contracts

The Company's indirect cost rates applied to contracts with the U.S. Government and various state agencies are subject to examination and renegotiation. Contracts and other records of the Company with respect to federal contracts have been examined through June 30, 2008. The Company believes that adjustments resulting from such examination or renegotiation proceedings, if any, will not likely have a material impact on the Company's business, operating results, financial position and cash flows.

#### Insurance Captive

During fiscal 2016, the Company became a shareholder in a member-owned heterogeneous (various industries) group captive reinsurance company. The policies of the program are placed with a U.S. insurance carrier, which provides coverage for workers' compensation, general liability and auto liability, with a certain initial layer of loss being reinsured to the carrier by the captive. The Company's annual premiums are actuarially determined based on historical loss experience, and also include administrative costs and fees. In addition, the captive is designed to have an acceptable level of risk sharing among its members. For a given policy period, if the Company's actual loss experience is greater than the estimate, the Company is required to make additional payments to the captive up to a maximum predetermined level. If the Company's loss experience is less than the estimate, the Company may receive a shareholder distribution, when declared by the captive's Board of Directors. The Company records any additional costs or distributions received from the captive in the period in which the Company is notified of the amount due or distribution to be received. The Company has not recorded any additional costs or distributions received related to the captive as of March 31, 2017 .

#### Legal Matters

The Company records actual or potential litigation-related losses in accordance with ASC Topic 450 "Contingencies".

The Company and its subsidiaries are subject to claims and lawsuits typical of those filed against engineering and consulting companies. The Company carries liability insurance, including professional liability insurance, against such claims subject to certain deductibles and policy limits. Except as described herein, management is of the opinion that the resolution of these claims and lawsuits will not likely have a material effect on the Company's operating results, financial position and cash flows.

TRC Environmental Corporation v. LVI Group Services, Inc., United States District Court for the Western District of Texas, Austin Division 2014. TRC was the prime contractor on a project to demolish and decommission a power plant in Austin, Texas. LVI was a subcontractor on that project, and TRC sued LVI for approximately \$3,000 for breaches in connection with LVI's work. LVI filed a number of responsive pleadings in this lawsuit including a counterclaim for approximately \$9,900 . TRC believes that its claims against LVI are meritorious and that LVI's counterclaim is without merit. Nevertheless, an adverse determination on LVI's counterclaim could have a material adverse effect on the Company's business, operating results, financial position and cash flows.

As of March 31, 2017 and June 30, 2016 , the Company had recorded litigation accruals of \$8,025 and \$4,869 , respectively. The Company also had insurance recovery receivables related to the aforementioned litigation-related accruals of \$5,087 and \$2,661 as of March 31, 2017 and June 30, 2016 , respectively.

The Company periodically adjusts the amount of such liabilities when such actual or potential liabilities are paid or otherwise discharged, new claims arise, or additional relevant information about existing or potential claims becomes available. The Company believes that it is reasonably possible that the amount of potential litigation-related liabilities could increase by as much as \$14,500 , of which \$2,500 would be covered by insurance.

## **Note 14. Subsequent Events**

### ***Insurance premium financing***

In April 2017, the Company financed \$5,181 of insurance premiums payable in eleven equal monthly installments of \$477 each, including a finance charge of 2.44% .

### ***Termination of waiting period***

On March 30, 2017, the Company entered into the Merger Agreement by and among the Company, Parent and Merger Sub, pursuant to which, and on the terms and subject to the conditions thereof, among other things, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of New Mountain Partners IV, L.P., a fund affiliated with New Mountain Capital.

Pursuant to the terms of the Merger Agreement, the consummation of the Merger is conditioned upon, among other things, the expiration or termination of any waiting period applicable to the consummation of the Merger under the HSR Act. On April 25, 2017, the U.S. Federal Trade Commission granted early termination of the 30-day waiting period under the HSR Act, with respect to the proposed Merger. The grant of early termination has the effect of satisfying the HSR Act condition under the Merger Agreement.

The consummation of the Merger remains subject to approval by the Company's stockholders and the satisfaction or waiver of customary closing conditions set forth in the Merger Agreement and described in the Company's preliminary proxy statement that was filed with the SEC on April 25, 2017.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Three and Nine Months Ended March 31, 2017 and March 25, 2016**

Our fiscal quarters end on the last Friday of the quarter except for the last quarter of the fiscal year which always ends on June 30. The nine months ended March 31, 2017 contained three more business days than the prior fiscal year period.

The following discussion of our results of operations and financial condition should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the fiscal year ended June 30, 2016. This discussion contains forward-looking statements that are based upon current expectations and assumptions, and by their nature, such forward-looking statements are subject to risks and uncertainties, including regarding the proposed transaction and business combination among Parent, Merger Sub and the Company, including statements regarding the benefits and the anticipated timing of the proposed transactions. Investors can generally identify these statements by forward-looking words such as “may,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” or other words of similar import. Investors should consider statements that contain these words carefully because they discuss the Company’s future expectations, contain projections of the Company’s future results of operations or of its financial condition, or state other “forward-looking” information. There may be events in the future that the Company is not able to accurately predict or control and that may cause its actual results to differ materially from the expectations described in its forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors, including, but not limited to, (i) the risk that the proposed transactions may not be completed in a timely manner or at all, which may adversely affect the Company’s business and the price of the Company’s common stock, (ii) the failure to satisfy the conditions to the consummation of the transaction, including the adoption of the Merger Agreement by the Company’s stockholders, (iii) the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement, (iv) the effect of the announcement or pendency of the proposed transactions on the Company’s business relationships, operating results, and business generally, (v) risks that the proposed transactions disrupts current plans and operations of the Company and potential difficulties in the Company’s employee retention as a result of the transaction, (vi) risks related to diverting management’s attention from the Company’s ongoing business operations, (vii) the outcome of any legal proceedings that may be instituted against the Company, its officers or directors related to the Merger Agreement or the proposed transactions, (viii) the possibility that competing offers or acquisition proposals for the Company will be made, (ix) risks related to the equity financing and related guarantee arrangements entered into in connection with the proposed transactions and (x) the ability of New Mountain Capital, L.L.C. to implement its plans, forecasts, and other expectations with respect to the Company’s business after the completion of the proposed transactions and realize additional opportunities for growth and innovation. In addition, please refer to the Company’s reports filed with the SEC, including the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. These filings identify and address other important risks and uncertainties that could cause events and results to differ materially from those contained in the forward-looking statements set forth in this communication. Forward-looking statements speak only as of the date they are made. Readers are cautioned not to put undue reliance on forward-looking statements, and the Company assumes no obligation and does not intend to update or revise these forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

### **Overview**

We are a firm that provides integrated engineering, consulting, and construction management services. Our project teams help our commercial and governmental clients implement environmental, power, infrastructure and oil and gas related projects from initial concept to delivery and operation. We provide our services almost entirely in the United States of America.

We generate revenue and cash flows from fees for professional and technical services. As a service company, we are more labor-intensive than capital-intensive. Our revenue and cash flow is driven by our ability to attract and retain

qualified and productive employees, identify business opportunities, secure new and renew existing client contracts, provide outstanding service to our clients and execute projects successfully. Our income from operations is derived from our ability to generate revenue under our contracts in excess of our direct costs, subcontractor costs, other contract costs, and general and administrative ("G&A") expenses.

In the course of providing our services, we routinely subcontract services. Generally, these subcontractor costs are passed through to our clients and, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and consistent with industry practice, are included in gross revenue. Because subcontractor services can change significantly from project to project, changes in gross revenue may not be indicative of business trends. Accordingly, we also report net service revenue ("NSR"), which is gross revenue less subcontractor costs and other direct reimbursable charges ("ODC's"), and our discussion and analysis of financial condition and results of operations uses NSR as a primary point of reference.

Our cost of services ("COS") includes professional compensation and related benefits together with certain direct and indirect overhead costs such as rents, utilities and travel. Professional compensation represents the majority of these costs. Our G&A expenses are comprised primarily of our corporate headquarters costs related to corporate executive management, finance, accounting, information technology, administration and legal. These costs are generally unrelated to specific client projects and can vary as expenses are incurred to support corporate activities and initiatives.

Our revenue, expenses and operating results may fluctuate significantly from year to year as a result of numerous factors, including:

- Unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- Seasonality of the spending cycle, notably for state and local government entities, and the spending patterns of our commercial sector clients;
- Budget constraints experienced by our federal, state and local government clients;
- Divestitures or discontinuance of operating units;
- The timing and impact of acquisitions;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during the period;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with contracts;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collection of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Competition;
- Litigation;
- Changes in accounting rules;
- The credit markets and their effect on our customers;
- General economic or political conditions; and
- Employee expenses such as medical and other benefits.

We experience seasonal trends in our business. Our revenue is typically lower in the second and third fiscal quarters, as our business is, to some extent, dependent on field work and construction scheduling and is also affected by holidays. Our revenue is lower during these times of the year because many of our clients' employees, as well as our own employees, do not work during those holidays, resulting in fewer billable hours charged to projects and thus, lower revenue recognized. In addition to holidays, harsher weather conditions that occur in the fall and winter can cause some of our offices to close and can significantly affect our project field work. Conversely, our business generally benefits from milder weather conditions in our first and fourth fiscal quarters which allow for more productivity from our field employees.

### Proposed Merger

On March 30, 2017, we entered into the Merger Agreement by and among the Company, Parent and Merger Sub, pursuant to which, and on the terms and subject to the conditions thereof, among other things, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of New Mountain Partners IV, L.P., a fund affiliated with New Mountain Capital.

For additional information related to the Merger and the Merger Agreement, please refer to Note 1 (Company Background and Basis of Presentation) to the unaudited Condensed Consolidated Financial Statements included in this report, to the Company's Current Reports on Form 8-K filed with the SEC on March 31, 2017, April 19, 2017 and April 26, 2017, and to the Company's preliminary proxy statement filed with the SEC on April 25, 2017. The full text of the Merger Agreement is attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on March 31, 2017, and incorporated by reference in this Form 10-Q.

### Acquisitions

We continuously evaluate the marketplace for strategic acquisition opportunities. A fundamental component of our profitable growth strategy is to pursue acquisitions that will expand our platform in key markets. Where the impact of acquisitions is noted in discussing results, it refers to acquisitions effected within the twelve months prior to the end of the relevant period.

#### Fiscal 2017 Acquisition

On March 31, 2017, we acquired all of the outstanding stock of CALTROP Corp. ("Caltrop"), headquartered in Riverside, California. Caltrop provides engineering, construction management and inspection services to customers in the transportation infrastructure market. The initial purchase price of \$28.2 million consisted of cash of \$16.3 million payable at closing, a three-year subordinated promissory note in the principal amount of \$8.5 million, and an estimated net working capital payment due of \$3.4 million. Goodwill of \$15.7 million, none of which is expected to be tax deductible, and other intangible assets of \$7.6 million were recorded as a result of this acquisition. The goodwill is primarily attributable to the synergies and ancillary growth opportunities expected to arise after the acquisition. The estimated fair values of assets and liabilities of the Caltrop acquisition have been recorded in the Infrastructure operating segment and are included in the unaudited balance sheet based on a preliminary allocation of the purchase price. These allocations will be finalized as soon as the remaining information becomes available and working capital adjustments are completed, which will be within one year from the acquisition date. The impact of this acquisition was not material to our condensed consolidated balance sheets and results of operations.

#### Fiscal 2016 Acquisition

On November 30, 2015, we acquired the Professional Services business of Willbros Group ("Willbros" or "Oil and Gas") in an all cash transaction. The initial purchase price consisted of (i) an initial cash payment of \$120.0 million payable at closing, and, (ii) a second cash payment of \$7.5 million payable at the earlier of certain Willbros contract novations (or written approval of a subcontract) and Willbros obtaining certain consents, or March 15, 2016, net of an estimated working capital adjustment due from Willbros of \$3.0 million. The second cash payment was made in two tranches, with \$2.4 million paid in March 2016 and the remaining balance paid in July 2016 in conjunction with the final net working capital settlement. Goodwill of \$60.3 million was initially recorded prior to impairment, all of which is expected to be tax deductible, and other intangible assets of \$44.5 million were recorded as a result of this acquisition. The goodwill recognized is attributable to the future strategic growth opportunities arising from the acquisition, Oil and Gas's highly skilled assembled workforce (which does not qualify for separate recognition) and the expected cost synergies of the combined operations.

## Operating Segments

We manage our business under the following four operating segments. To more clearly communicate our capabilities and focus to the marketplace, beginning in fiscal 2017, we renamed our Energy segment “Power” and our Pipeline Services segment “Oil and Gas.”

**Power (formerly Energy):** The Power operating segment provides services to a range of clients including energy companies, power utilities, other commercial entities, and state and federal government entities. Our services include program management, engineer/procure/construct projects, design, and consulting. Our typical projects involve upgrades, design and new construction for electric transmission and distribution systems and substations; energy efficiency program design and management; security assessments; and renewable energy development and power generation.

**Environmental:** The Environmental operating segment provides services to a wide range of clients including industrial, transportation, energy and natural resource companies, as well as federal, state and municipal agencies. The Environmental operating segment is organized to focus on key areas of demand including: environmental management of buildings and facilities; air quality measurements and modeling of potential air pollution impacts; water quality and water resource management; assessment and remediation of contaminated sites and buildings; hazardous waste management; construction monitoring, inspection and management; environmental, health and safety management and sustainability advisory services; compliance auditing and strategic due diligence; environmental licensing and permitting of a wide variety of projects; and natural and cultural resource assessment, protection and management.

**Infrastructure:** The Infrastructure operating segment provides services related to the expansion of infrastructure capacity and the rehabilitation of overburdened and deteriorating infrastructure systems. Our client base is predominantly state and municipal governments as well as select commercial developers. In addition, we provide infrastructure services on projects originating in our other operating segments. Primary services include: roadway, bridge and related surface transportation design; structural design and inspection of bridges; program management; construction engineering inspection and construction management for roads and bridges; civil engineering for municipalities and public works departments; geotechnical engineering services; and, design and construction management.

**Oil & Gas (formerly Pipeline Services):** Acquired in November 2015, the Oil & Gas operating segment provides pipeline and facilities engineering; engineer, procure, and construct ("EPC") services; engineer, procure, construct and management ("EPCm") services; field services and integrity services to the oil and gas transmission and midstream markets, as well as at government facilities. We specialize in providing engineering services to assist clients in designing, engineering and constructing or expanding pipeline systems, compressor stations, pump stations, fuel storage facilities, terminals, and field gathering and production facilities. Our expertise extends to the engineering of a wide range of project peripherals, including various types of support buildings and utility systems, power generation and electrical transmission systems, communications systems, fire protection, water and sewage treatment, water transmission, roads and railroad sidings. We also provide project management, engineering and material procurement services to the refining industry and government agencies, including mechanical, civil, structural, electrical instrumentation/controls and environmental engineering. We provide full-service integrity management program offerings including program development, data services, risk analysis, corrosion evaluation, and integrity engineering. We are partnered with Google to provide a cloud-based pipeline life-cycle integrity management solution, Integra Link™, which utilizes Google's geospatial technology platform to help oil and gas pipeline companies visualize and utilize their data and information.

Our chief operating decision maker is our Chief Executive Officer ("CEO"). Our CEO manages the business by evaluating the financial results of the four operating segments, focusing primarily on segment revenue and segment profit. We utilize segment revenue and segment profit because we believe they provide useful information for effectively allocating resources among operating segments; evaluating the health of our operating segments based on metrics that

management can actively influence; and gauging our investments and our ability to service, incur or pay down debt. Specifically, our CEO evaluates segment revenue and segment profit and assesses the performance of each operating segment based on these measures, as well as, among other things, the prospects of each of the operating segments and how they fit into our overall strategy. Our CEO then decides how resources should be allocated among our operating segments. We do not track our assets by operating segment, and consequently, it is not practical to show assets by operating segment. Segment profit includes all operating expenses except the following: costs associated with providing corporate shared services (including certain depreciation and amortization), goodwill and intangible asset write-offs, and stock-based compensation expense. Depreciation expense is primarily allocated to operating segments based upon their respective use of total operating segment office space. Assets solely used at the Corporate level are not allocated to the operating segments. Inter-segment balances and transactions are not material. The accounting policies of the operating segments are the same as those for us as a whole except as discussed herein.

On July 1, 2016 we made certain changes to our management reporting structure which resulted in a change to the composition of the Infrastructure operating segment. Certain corporate employees were transferred to the Infrastructure operating segment. As a result, beginning in fiscal year 2017 we report our financial performance based on the current reporting structure. We have recast certain prior period amounts to conform to the way we internally manage and monitor segment performance. These changes had no impact on consolidated net income or cash flows and were not material to the segment measurements presented.

The following table presents the approximate percentage of our NSR by operating segment for the three and nine months ended March 31, 2017 and March 25, 2016 :

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
Power	32%	30%	31%	33%
Environmental	40%	41%	39%	47%
Infrastructure	11%	11%	13%	12%
Oil and Gas	17%	18%	17%	8%
	100%	100%	100%	100%

### Business Trend Analysis

**Power:** The utilities in the United States are in the midst of a multi-year upgrade of the electric transmission grid to improve capacity, reliability and distribution of sources of generation. Years of underinvestment coupled with a favorable regulatory environment have provided a good business opportunity for those serving this market. According to the Edison Electric Institute, electric utilities throughout the United States will be investing over \$60 billion in the performance of this work over the next several years. Economic impacts have slowed the pace of this investment, yet they do not appear to have affected the long term plan of investment. Demand for energy efficiency services continues to be supported by increasing state and federal funds targeted at energy efficiency. The Regional Green House Gas Initiative and system benefit charges at the state or utility level have expanded the marketplace for energy efficiency program management services. Investment within the renewable portfolios also remains strong. We are well established in the Northeast and Mid-Atlantic regions and are growing our presence in the Southeast and in Texas and California where demand for services is the highest.

**Environmental:** Following a slowdown caused by general economic conditions, market demand for environmental services continues to be mixed. The fundamental market drivers remain in place, and this market also benefits from evolving regulatory developments particularly with respect to air quality, and the continuing need to enhance our aging transportation and energy infrastructure. While we expect oil and gas activity and major capital projects to be constrained

in the near term, the outlook for services related to other areas of the market, such as construction, transaction support, the retirement of coal plants and the need to transport natural gas remains favorable. Renewables and other energy source initiatives present important market opportunities but are linked to federal and state policy changes which will be required for the markets to commit long-term capital to projects.

**Infrastructure:** Long-term prospects should be favorable. The overall infrastructure construction markets are expected to benefit from the federal funding certainty provided by the new \$305 billion highway bill known as the Fixing America's Surface Transportation (FAST) Act. The bill calls for the spending of approximately \$205 billion on highways and \$48 billion on transit projects.

**Oil & Gas:** Our Oil & Gas segment is currently in the midst of a market downturn due to low oil and gas prices and uncertainty in the oil and gas markets. Nevertheless, long-term opportunities include mid-stream oil and natural gas liquid pipelines which are necessary to match takeaway capacity with levels of production, some of which is stranded due to inadequate pipeline infrastructure, primarily in the Marcellus and Utica shales. Additional future opportunities are presented by natural gas pipelines to take gas to LNG export facilities. Furthermore natural gas pipelines will be required as coal plants are retired and replaced with cleaner gas-burning plants. New regulatory requirements proposed by the Department of Transportation as well as safety issues will lead to data and integrity requirements for pipeline operators where our technologies and services can be utilized.

### **Critical Accounting Policies**

Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the condensed consolidated financial statements and related notes. Actual results could differ from these estimates and assumptions. We use our best judgment in the assumptions used to compile these estimates which are based on current facts and circumstances, prior experience and other assumptions that are believed to be reasonable. Further detail regarding our critical accounting policies can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, as filed with the Securities Exchange Commission ("SEC") on August 31, 2016. No material changes concerning our critical accounting policies have occurred since June 30, 2016.



## Results of Operations

### Consolidated Results of Operations

The following table presents the dollar and percentage changes in the condensed consolidated statements of operations for the three and nine months ended March 31, 2017 and March 25, 2016 :

(Dollars in thousands)	Three Months Ended				Nine Months Ended			
	Mar. 31	Mar. 25,	Change		Mar. 31	Mar. 25,	Change	
	2017	2016	\$	%	2017	2016	\$	%
<b>Gross revenue</b>	<b>\$ 189,724</b>	<b>\$ 158,130</b>	<b>\$ 31,594</b>	<b>20.0 %</b>	<b>\$ 569,237</b>	<b>\$ 451,332</b>	<b>\$ 117,905</b>	<b>26.1 %</b>
Less subcontractor costs and other direct reimbursable charges	60,999	36,877	24,122	65.4	188,851	118,534	70,317	59.3
<b>Net service revenue</b>	<b>128,725</b>	<b>121,253</b>	<b>7,472</b>	<b>6.2</b>	<b>380,386</b>	<b>332,798</b>	<b>47,588</b>	<b>14.3</b>
<b>Interest income from contractual arrangements</b>	<b>20</b>	<b>27</b>	<b>(7)</b>	<b>(25.9)</b>	<b>116</b>	<b>69</b>	<b>47</b>	<b>68.1</b>
<b>Insurance recoverables and other income</b>	<b>1,140</b>	<b>146</b>	<b>994</b>	<b>680.8</b>	<b>2,421</b>	<b>1,919</b>	<b>502</b>	<b>26.2</b>
Cost of services (exclusive of costs shown separately below)	107,071	104,030	3,041	2.9	316,360	280,690	35,670	12.7
General and administrative expenses	11,290	9,523	1,767	18.6	33,171	24,690	8,481	34.3
Acquisition and integration expenses	—	1,606	(1,606)	(100.0)	—	3,724	(3,724)	(100.0)
Goodwill impairment	—	24,465	(24,465)	(100.0)	—	24,465	(24,465)	(100.0)
Depreciation	1,701	1,942	(241)	(12.4)	5,243	5,070	173	3.4
Amortization	2,813	3,162	(349)	(11.0)	8,146	5,078	3,068	60.4
<b>Operating income (loss)</b>	<b>7,010</b>	<b>(23,302)</b>	<b>30,312</b>	<b>130.1</b>	<b>20,003</b>	<b>(8,931)</b>	<b>28,934</b>	<b>324.0</b>
Interest income	391	189	202	106.9	955	326	629	192.9
Interest expense	(1,201)	(1,073)	(128)	11.9	(2,887)	(1,562)	(1,325)	84.8
<b>Income (loss) from operations before taxes</b>	<b>6,200</b>	<b>(24,186)</b>	<b>30,386</b>	<b>125.6</b>	<b>18,071</b>	<b>(10,167)</b>	<b>28,238</b>	<b>277.7</b>
Income tax (provision) benefit	(1,663)	9,954	(11,617)	(116.7)	(5,867)	4,358	(10,225)	(234.6)
<b>Net income (loss)</b>	<b>4,537</b>	<b>(14,232)</b>	<b>18,769</b>	<b>131.9</b>	<b>12,204</b>	<b>(5,809)</b>	<b>18,013</b>	<b>310.1</b>
Net income applicable to noncontrolling interest	(39)	(65)	26	(40.0)	(69)	(59)	(10)	16.9
<b>Net income (loss) applicable to TRC Companies, Inc.</b>	<b>\$ 4,498</b>	<b>\$ (14,297)</b>	<b>\$ 18,795</b>	<b>131.5 %</b>	<b>\$ 12,135</b>	<b>\$ (5,868)</b>	<b>\$ 18,003</b>	<b>306.8 %</b>

### Three Months Ended March 31, 2017

Gross revenue increased \$31.6 million , or 20.0% , to \$189.7 million for the three months ended March 31, 2017 from \$158.1 million for the same period in the prior year. Organic activities accounted for \$30.5 million, or 96.5%, of the growth in gross revenue, and acquisitions accounted for the remaining \$1.1 million, or 3.5%, of the increase. The organic increase was primarily driven by several large capital projects in our Power operating segment that had significant subcontractor and procurement activities which generated higher levels of gross revenue and ODC's in the current period, including a significant program management project in California.

NSR increased \$7.5 million , or 6.2% , to \$128.7 million for the three months ended March 31, 2017 from \$121.3 million for the same period in the prior year. Organic activities accounted for \$6.6 million, or 87.5%, of the growth in NSR, and acquisitions accounted for the remaining \$0.9 million, or 12.5%, of the increase. Organic NSR increased \$4.4 million in our Power operating segment driven by the aforementioned large capital projects. Our Infrastructure operating segment organic NSR increased \$1.6 million, driven by improved transportation-related spending primarily associated with several large public-private partnership projects. Our Oil & Gas operating segment organic NSR increased \$0.7 million, driven largely by improved project execution.

Insurance recoverables and other income increased \$1.0 million , or 680.8% , to \$1.1 million for the three months ended March 31, 2017 from \$0.1 million for the same period in the prior year. In the three months ended March 31, 2017 certain Exit Strategy projects had estimated cost increases which are not expected to be funded by the project-specific restricted investments and, therefore, are projected to be funded by the project specific insurance policy procured at

project inception to cover, among other things, costs in excess of the original estimates. We did not experience the same level of estimated cost increases in the prior year quarter.

COS increased \$3.0 million , or 2.9% , to \$107.1 million for the three months ended March 31, 2017 from \$104.0 million for the same period in the prior year. Organic activities accounted for \$2.4 million, or 81.3%, of the growth in COS, and acquisitions accounted for the remaining \$0.6 million, or 18.7%, of the increase. The organic increase was primarily attributable to costs incurred to support current and projected demand from our Power operating segment. As a percentage of NSR, COS were 83.2% and 85.8% for the three months ended March 31, 2017 and March 25, 2016 , respectively.

G&A expenses increased \$1.8 million , or 18.6% , to \$11.3 million for the three months ended March 31, 2017 from \$9.5 million for the same period in the prior year. The increase was primarily due to \$0.7 million of increased legal costs and reserves which can vary in amount and timing year to year as well as approximately \$0.5 million in expenses incurred related to the Merger Agreement and the pending Merger. As a percentage of NSR, G&A expenses were 8.8% and 7.9% for the three months ended March 31, 2017 and March 25, 2016 , respectively, primarily due to the aforementioned increased costs.

Depreciation expenses decreased \$0.2 million , or 12.4% , to \$1.7 million for the three months ended March 31, 2017 from \$1.9 million for the same period in the prior year.

Amortization expenses decreased \$0.3 million , or 11.0% , to \$2.8 million for the three months ended March 31, 2017 from \$3.2 million for the same period in the prior year.

Our effective tax rate was approximately 27.0% and 41.1% for the three months ended March 31, 2017 and March 25, 2016 respectively. The primary reconciling items between the federal statutory rate of 35.0% and our overall effective tax rate for the three months ended March 31, 2017 were the effect of state income taxes offset by tax benefits related to the U.S. Research and Development credit and the U.S. Domestic Production Activities deduction. The primary reconciling items between the federal statutory rate of 35.0% and our overall effective tax rate for the three months ended March 25, 2016 were the effect of state income taxes offset by discrete tax benefits related to the U.S. Research and Development credit and U.S. Domestic Production Activities deduction. The discrete impact of research and development credits and U.S. Domestic Production Activities deduction was the result of a change in estimate resulting from the finalization of a new research and development credit and U.S. Domestic Production Activities deduction study during the three months ended March 25, 2016 . A tax benefit for the change in estimate was reflected in its entirety in the three months ended March 25, 2016 .

### **Nine Months Ended March 31, 2017**

Gross revenue increased \$117.9 million , or 26.1% , to \$569.2 million for the nine months ended March 31, 2017 from \$451.3 million for the same period in the prior year. Organic activities accounted for \$72.6 million, or 61.6%, of the growth in gross revenue, and acquisitions accounted for the remaining \$45.3 million, or 38.4%, of the increase. The increase in organic gross revenue was primarily attributable to our Power operating segment where organic gross revenue increased \$59.3 million, driven by several large capital projects that had significant subcontractor and procurement activities which generated higher levels of gross revenue and ODC's in the current period.

NSR increased \$47.6 million , or 14.3% , to \$380.4 million for the nine months ended March 31, 2017 from \$332.8 million for the same period in the prior year. Organic activities accounted for \$12.0 million, or 25.1%, of the increase in NSR, and acquisitions accounted for \$35.6 million, or 74.9%, of the increase. The increase in organic NSR was, in part, due to our Power operating segment where organic NSR increased \$7.6 million driven by the aforementioned large capital projects. In our Infrastructure operating segment, several large transportation projects and increased demand from our state government clients, contributed \$5.6 million of organic NSR growth for the period. Organic growth in our Oil & Gas operating segment of \$2.7 million was driven by improved project execution. The organic NSR growth in our Oil & Gas, Power and Infrastructure operating segments was partially offset by a \$3.9 million decline in the Environmental operating segment. This decline was primarily due to the wind-down of several large remediation projects.



Insurance recoverables and other income increased \$0.5 million , or 26.2% , to \$2.4 million for the nine months ended March 31, 2017 from \$1.9 million for the same period in the prior year.

COS increased \$35.7 million , or 12.7% , to \$316.4 million for the nine months ended March 31, 2017 from \$280.7 million for the same period in the prior year. Organic COS increased \$6.7 million, or 18.8%, and acquisitions accounted for \$29.0 million, or 81.2%, of the increase. Organic COS were negatively impacted by increased project costs on a large fixed price project that was ongoing during fiscal 2017. Fringe benefit costs also contributed to the increase in organic COS, and, in particular, health insurance costs increased \$1.5 million in the current period as compared to the same period in the prior year. The Company is self-insured for the first \$150 thousand of health claims per employee each year. Consequently, employee health insurance costs can vary significantly from period to period, and we experienced a higher level of costs in the first quarter of 2017. The balance of the increase in organic COS was attributable to costs incurred to support the current demand from our Infrastructure and Power operating segment clients. As a percentage of NSR, COS were 83.2% and 84.3% for the nine months ended March 31, 2017 and March 25, 2016 , respectively.

G&A expenses increased \$8.5 million , or 34.3% , to \$33.2 million for the nine months ended March 31, 2017 from \$24.7 million for the same period in the prior year. Organic G&A expenses increased \$7.3 million, or 79.8%, and acquisitions accounted for \$1.5 million, or 20.2%, of the increase. The organic increase was primarily due to \$3.2 million of increased legal costs and reserves which can vary in amount and timing year to year, as well as approximately \$0.5 million in expenses incurred related to the Merger Agreement and the pending Merger. The remainder of the increase was due to additional costs incurred to support certain organic growth activities. As a percentage of NSR, G&A expenses were 8.7% and 7.4% for the nine months ended March 31, 2017 and March 25, 2016 , respectively.

Depreciation expenses increased \$0.2 million , or 3.4% , to \$5.2 million for the nine months ended March 31, 2017 from \$5.1 million for the same period in the prior year.

Amortization expenses increased \$3.1 million , or 60.4% , to \$8.1 million for the nine months ended March 31, 2017 from \$5.1 million for the same period in the prior year. The increase was primarily attributable to the Oil and Gas intangible assets acquired in November 2015, which contributed \$5.9 million of additional amortization expense in the nine months ended March 31, 2017 .

Our effective tax rate was approximately 32.6% and 42.6% for the nine months ended March 31, 2017 and March 25, 2016 respectively. The primary reconciling items between the federal statutory rate of 35.0% and our overall effective tax rate for the nine months ended March 31, 2017 were the effect of state income taxes offset by tax benefits related to the U.S. Research and Development credit, U.S. Domestic Production Activities deduction and the effective settlement of uncertain tax positions. The primary reconciling items between the federal statutory rate of 35.0% and our overall effective tax rate for the nine months ended March 25, 2016 were the effect of state income taxes offset by discrete tax benefits related to the U.S. Research and Development credit and U.S. Domestic Production Activities deduction.

### **Costs and Expenses as a Percentage of NSR**

The following table presents the percentage relationships of items in the condensed consolidated statements of operations to NSR for the three and nine months ended March 31, 2017 and March 25, 2016 :

	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
Net service revenue	100.0 %	100.0 %	100.0 %	100.0 %
Interest income from contractual arrangements	—	—	—	—
Insurance recoverables and other income	0.9	0.1	0.6	0.6
Operating costs and expenses:				
Cost of services (exclusive of costs shown separately below)	83.2	85.8	83.2	84.3
General and administrative expenses	8.8	7.9	8.7	7.4
Acquisition and integration expenses	—	1.3	—	1.1
Goodwill impairment	—	20.2	—	7.4
Depreciation	1.3	1.6	1.4	1.5
Amortization	2.2	2.6	2.1	1.5
<b>Total operating costs and expenses</b>	<b>95.5</b>	<b>119.4</b>	<b>95.4</b>	<b>103.3</b>
<b>Operating income (loss)</b>	<b>5.4</b>	<b>(19.2)</b>	<b>5.3</b>	<b>(2.7)</b>
Interest income	0.3	0.2	0.3	0.1
Interest expense	(0.9)	(0.9)	(0.8)	(0.5)
<b>Income (loss) from operations before taxes</b>	<b>4.8</b>	<b>(19.9)</b>	<b>4.8</b>	<b>(3.1)</b>
Income tax (provision) benefit	(1.3)	8.2	(1.5)	1.3
<b>Net income (loss)</b>	<b>3.5 %</b>	<b>(11.7)%</b>	<b>3.2 %</b>	<b>(1.7)%</b>

### **Additional Information by Reportable Operating Segment**

#### **Power Operating Segment Results**

	Three Months Ended				Nine Months Ended			
	March 31, 2017	March 25, 2016	Change		March 31, 2017	March 25, 2016	Change	
<b>(Dollars in thousands)</b>			\$	%			\$	%
Gross revenue	\$ 69,074	\$ 46,280	\$ 22,794	49.3%	\$ 193,929	\$ 133,556	\$ 60,373	45.2%
Net service revenue	\$ 41,282	\$ 35,974	\$ 5,308	14.8%	\$ 118,670	\$ 110,106	\$ 8,564	7.8%
Segment profit	\$ 9,110	\$ 8,049	\$ 1,061	13.2%	\$ 26,578	\$ 24,831	\$ 1,747	7.0%

Gross revenue increased \$22.8 million , or 49.3% , and \$60.4 million , or 45.2% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. Organic gross revenue increased \$21.7 million and \$59.3 million while acquisitions provided \$1.1 million and \$1.1 million, of the increase for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year. These organic increases were primarily driven by several large capital projects, in particular, a large EPC project and a significant program management project in California. These projects, which are in the construction phase, had significant subcontractor and procurement activities that generated higher levels of gross revenue and ODC's in the current periods. The increase in organic gross revenue was not reflected in organic NSR at the same level because the mark-up for procurement and subcontracted services is typically lower than work performed by our employees, or direct labor revenue.

NSR increased \$5.3 million , or 14.8% , and \$8.6 million , or 7.8% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. Organic NSR increased \$4.4 million and \$7.6 million while acquisitions provided \$0.9 million and \$0.9 million, of the increase for the three and nine months ended March 31, 2017 , respectively,

compared to the same periods in the prior year. The increases in organic NSR were due, in part, to the aforementioned capital projects, as well as increased organic labor revenue from our electrical testing and commissioning services which were primarily associated with the upgrade of existing substation facilities. Organic NSR also benefitted from three additional business days in the current nine month period, which added approximately \$1.7 million of organic NSR.

The Power operating segment's profit increased \$1.1 million , or 13.2% , and \$1.7 million , or 7.0% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. Organic segment profit increased \$1.1 million and \$1.7 million while acquisitions accounted for none of the increase for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year. The increase in organic segment profit was primarily due to the same factors that led to the increase in organic NSR. The current year to date increase was offset in part, by increased project costs on a large fixed price project. As a percentage of NSR, the Power operating segment's profit decreased slightly to 22.1% from 22.4% and to 22.4% from 22.6% for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year.

### **Environmental Operating Segment Results**

(Dollars in thousands)	Three Months Ended				Nine Months Ended			
	March 31,	March 25,	Change		March 31,	March 25,	Change	
	2017	2016	\$	%	2017	2016	\$	%
Gross revenue	\$ 73,557	\$ 65,465	\$ 8,092	12.4 %	\$ 227,655	\$ 219,233	\$ 8,422	3.8 %
Net service revenue	\$ 49,855	\$ 50,023	\$ (168)	(0.3)%	\$ 149,074	\$ 153,011	\$ (3,937)	(2.6)%
Segment profit	\$ 8,651	\$ 7,922	\$ 729	9.2 %	\$ 26,887	\$ 27,451	\$ (564)	(2.1)%

Gross revenue increased \$8.1 million , or 12.4% , and \$8.4 million , or 3.8% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. These increases were primarily driven by several new projects, in particular, a large project to decommission a coal power plant. This project, had significant subcontractor activities that generated higher levels of gross revenue and ODC's in the current periods.

NSR decreased \$0.2 million , or 0.3% , and \$3.9 million , or 2.6% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. The decreases in NSR were primarily attributable to a lower volume of labor services provided to our oil and gas clients, the completion of several large remediation projects as well as the current project mix as aforementioned. The decrease in NSR in the current nine month period was partially mitigated by three additional business days, which added approximately \$2.2 million of NSR.

The Environmental operating segment's profit increased \$0.7 million , or 9.2% , and decreased \$0.6 million , or 2.1% , for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year. The decrease in segment profit for the nine months ended March 31, 2017 was directly related to transitions associated with new projects, which resulted in lower employee utilization and severance costs. As a percentage of NSR, the Environmental operating segment's profit increased to 17.4% from 15.8% and to 18.0% from 17.9% for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year. The increase in segment profit percentage in the current year quarter is attributable to lower employee costs incurred due to the transition activities implemented in prior quarters.

## Infrastructure Operating Segment Results

(Dollars in thousands)	Three Months Ended				Nine Months Ended			
	March 31,	March 25,	Change		March 31,	March 25,	Change	
	2017	2016	\$	%	2017	2016	\$	%
Gross revenue	\$ 18,518	\$ 18,721	\$ (203)	(1.1)%	\$ 62,873	\$ 60,998	\$ 1,875	3.1%
Net service revenue	\$ 14,673	\$ 13,036	\$ 1,637	12.6 %	\$ 45,922	\$ 40,308	\$ 5,614	13.9%
Segment profit	\$ 3,202	\$ 2,536	\$ 666	26.3 %	\$ 10,984	\$ 7,961	\$ 3,023	38.0%

Gross revenue decreased \$0.2 million , or 1.1% , and increased \$1.9 million , or 3.1% , for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year. The decrease in gross revenue for the three month period was due to a lower level of sub-contracting in the current quarter. The level of sub-contracting can fluctuate in any period due to changes in the scopes and stages of our ongoing contracts. The \$1.9 million gross revenue increase for the nine month period was primarily driven by improved transportation-related spending by our clients primarily associated with several large public-private partnership projects.

NSR increased \$1.6 million , or 12.6% , and \$5.6 million , or 13.9% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. The increase in NSR was largely attributable to labor revenue on the aforementioned large public-private partnership projects as well as the benefit of three additional business days in the current nine month period compared to the same period of the prior year, which added approximately \$0.8 million of NSR.

The Infrastructure operating segment's profit increased \$0.7 million , or 26.3% , and \$3.0 million , or 38.0% , for the three and nine months ended March 31, 2017 , compared to the same periods in the prior year. The increase in segment profit was primarily attributable to the same factors that led to the increase in NSR, as well as improved project execution and the benefit of increased scale in the business. As a percentage of NSR, the Infrastructure operating segment's profit increased to 21.8% from 19.5% and increased to 23.9% from 19.8% for the three and nine months ended March 31, 2017 , respectively, compared to the same periods in the prior year.

## Oil & Gas Operating Segment Results

(Dollars in thousands)	Three Months Ended				Nine Months Ended			
	March 31,	March 25,	Change		March 31,	March 25,	Change	
	2017	2016	\$	%	2017	2016	\$	%
Gross revenue	\$ 27,828	\$ 26,526	\$ 1,302	4.9%	\$ 81,949	\$ 34,543	\$ 47,406	137.2%
Net service revenue	\$ 22,280	\$ 21,560	\$ 720	3.3%	\$ 64,951	\$ 27,546	\$ 37,405	135.8%
Segment profit	\$ 2,045	\$ (3,128)	\$ 5,173	165.4%	\$ 4,883	\$ (4,289)	\$ 9,172	213.8%

Acquired on November 30, 2015, Oil & Gas contributed \$27.8 million in gross revenue, \$22.3 million in NSR, and had segment profit of \$2.0 million for the three months ended March 31, 2017 . Oil & Gas contributed \$81.9 million in gross revenue, \$65.0 million in NSR, and had segment profit of \$4.9 million for the nine months ended March 31, 2017 . Continued uncertainty surrounding the oil and gas markets impacted current period operating results, although more recently, stability is being seen in the markets. These operating results were also impacted by purchase accounting related amortization expenses of approximately \$1.8 million and \$5.9 million in the three and nine months ended March 31, 2017 , respectively. Against the backdrop of the uncertain markets, the Oil and Gas operating segment improved sequential operating results. In particular as a percentage of NSR, operating segment profit margin increased to 9.2% in the current quarter from 6.8% in the current year second quarter, 6.4% in the current year first quarter and a loss in the prior two sequential quarters. Additionally organic NSR and organic segment profit increased \$5.2 million and \$6.9 million, respectively, for the three and nine months ended March 31, 2017 . The improved segment profit is

primarily related to cost reduction initiatives taken over the last several quarters, including, but not limited to, staff reductions, reduction of indirect costs and rationalization of office space.

### **Backlog by Operating Segment**

As of March 31, 2017, our contract backlog based on gross revenue was \$631 million, compared to \$595 million as of March 25, 2016. Our contract backlog based on NSR was \$384 million as of March 31, 2017, compared to \$376 million as of March 25, 2016. Typically about 60% of backlog is completed in one year. In addition to this contract backlog, we hold open-order contracts from various commercial clients and government agencies. As work under these contracts is authorized and funded, we include this portion in our contract backlog. While most contracts contain cancellation provisions, we are unaware of any material work included in backlog that will be canceled or delayed.

The following table sets forth the gross revenue and NSR contract backlog amounts of our operating segments at March 31, 2017 and March 25, 2016 (in millions):

(Dollars in millions)	Gross Revenue Backlog				NSR Backlog			
	March 31,	March 25,	Change		March 31,	March 25,	Change	
	2017	2016	\$	%	2017	2016	\$	%
Power	\$ 209	\$ 160	\$ 49	30.6 %	\$ 112	\$ 91	\$ 21	23.1 %
Environmental	240	243	(3)	(1.2)%	139	139	—	— %
Infrastructure	131	131	—	— %	94	96	(2)	(2.1)%
Oil & Gas	51	61	(10)	(16.4)%	39	50	(11)	(22.0)%
<b>Total</b>	<b>\$ 631</b>	<b>\$ 595</b>	<b>\$ 36</b>	<b>6.1 %</b>	<b>\$ 384</b>	<b>\$ 376</b>	<b>\$ 8</b>	<b>2.1 %</b>

### **Revisions in Estimates**

We have numerous contracts in progress at any time, all of which are at various stages of completion. Our recognition of profit is dependent upon the accuracy of a variety of estimates including engineering progress, materials quantities, achievement of milestones and other incentives, liquidated-damages provisions, labor productivity and cost estimates. Such estimates are based on various judgments we make with respect to those factors and can be difficult to accurately determine until the project is significantly underway. Due to uncertainties inherent in the estimation process, actual completion costs often vary from estimates. If estimated total costs on any contract indicate a loss, we charge the entire estimated loss to operations in the period the loss first becomes known. If actual costs exceed the original fixed contract price, recognition of any additional revenue would be pursuant to a change order, contract modification, or claim.

The following table summarizes the number of projects that experienced estimated contract profit revisions relating to the revaluation of work performed in prior periods:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
Number of projects	1,396	1,437	1,818	1,659
Net increase (reduction) in project profitability	\$ (106)	\$ 715	\$ (3,787)	\$ (1,617)
Net increase (reduction) in project profitability by operating segment:				
Power	\$ (34)	\$ 310	\$ (2,744)	\$ (408)
Environmental	(101)	1,672	(2,522)	(828)
Infrastructure	106	(886)	580	(381)
Oil and Gas	(77)	(381)	899	—
Total	\$ (106)	\$ 715	\$ (3,787)	\$ (1,617)

## Impact of Inflation

Our operations have not been materially affected by inflation or changing prices because most contracts of a longer term are subject to adjustment or have been priced to cover anticipated increases in labor and other costs, and the remaining contracts are short term in nature.

## Liquidity and Capital Resources

We primarily rely on cash from operations and financing activities, including borrowings under our revolving credit facility, to fund our operations. Our liquidity is assessed in terms of our overall ability to generate cash to fund our operating and investing activities and to service debt. We believe that our available cash, cash flows from operations and borrowing capacity under our credit facility, discussed under "Revolving Credit Facility and Term Loan" below, will be sufficient to fund our operations for at least the next twelve months.

The following table provides summarized information with respect to our cash balances and cash flows as of and for the nine months ended March 31, 2017 and March 25, 2016 (in thousands):

(Dollars in thousands)	Nine Months Ended			
	March 31,	March 25,	Change	
	2017	2016	\$	%
Net cash provided by operating activities	\$ 25,291	\$ 30,475	\$ (5,184)	(17.0)%
Net cash used in investing activities	(21,977)	(125,216)	103,239	82.4 %
Net cash (used in) provided by financing activities	(15,907)	66,565	(82,472)	123.9 %

As of March 31, 2017 , cash and cash equivalents decreased by \$12.6 million , or 67.0% , to \$6.2 million , compared to the fiscal year ended June 30, 2016 .

Net cash provided by operating activities decreased by \$5.2 million , or 17.0% , to \$25.3 million for the nine months ended March 31, 2017 , compared to \$30.5 million of cash provided for the same period of the prior year. This decrease was primarily due to increased accounts receivables attributable to the 20% increase in gross revenues in the current year quarter versus the prior period quarter, offset by higher income, adjusted for non-cash charges, in the current year period, as well as a favorable impact in the current period from changes in accounts payable and our other working capital accounts.

Accounts receivable include both: (1) billed receivables associated with invoices submitted for work performed and (2) unbilled receivables (work in progress). The unbilled receivables are primarily related to work performed in the last month of the quarter. The efficiency of the billing and collection process is commonly evaluated as days sales outstanding ("DSO"), which we calculate by dividing accounts receivable by the most recent three-month average of daily gross revenue. Current quarter DSO, which measures the collections turnover of both billed and unbilled receivables, was 81 days as of March 31, 2017 increasing from the 79 days as of June 30, 2016 , and decreasing from 83 days when compared to March 25, 2016 . Our goal is to maintain DSO at less than 82 days.

Net cash used in investing activities decreased by \$103.2 million , or 82.4% , to \$22.0 million for the nine months ended March 31, 2017 , compared to \$125.2 million of cash used for the same period of the prior year. The decrease was primarily attributable to a decline of \$100.5 million utilized for acquisitions, notably the acquisition of Oil and Gas in the prior year period.

Net cash used in financing activities increased by \$82.5 million , or 123.9% , to \$15.9 million for the nine months ended March 31, 2017 , compared to \$66.6 million of cash provided in the same period of the prior year. The change was directly attributable our Term Loan and Revolving Credit Facility drawn to fund the acquisition of Oil and Gas in the prior year period.

**Long-Term Debt****Revolving Credit Facility and Term Loan**

See a discussion of our credit facility (the "Credit Agreement"), other notes payable and capital lease obligations in Note 9 - Long-Term Debt and Capital Lease Obligations, under Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

The actual results as compared to the covenant requirements under the Credit Agreement as of March 31, 2017 for the measurement periods described below are as follows (in thousands):

Financial Covenant	Measurement Period	Actual	Required	
Maximum leverage ratio	Trailing 12 Months	1.38	Not to exceed	3.00 to 1.00
Minimum fixed charge coverage ratio	Trailing 12 Months	4.38	Must exceed	1.25 to 1.00

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We do not currently utilize derivative financial instruments. We are exposed to interest rate risk under our Credit Agreement. Amounts outstanding under the Credit Agreement bear interest at the Base Rate (as defined, generally the prime rate) plus a margin of 0.50% to 1.75% , or at the Eurodollar Rate (as defined, generally the Libor rate) plus a margin of 1.50% to 2.75% , based on the Company's Leverage Ratio (as defined).

Borrowings at these rates under the Revolving Facility have no designated term and may be repaid without penalty any time prior to the maturity date. Borrowings outstanding under the Revolving Facility will mature on January 31, 2022.

**Item 4. Controls and Procedures*****Evaluation of Disclosure Controls and Procedures***

The Company has evaluated, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of March 31, 2017 . Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2017 .

***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during the Company's quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

See Legal Matters in Note 13 - Commitments and Contingencies, under Part I, Item 1, Financial Information.

### Item 1A. Risk Factors

No material changes.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

- |         |   |
|---------|---|
| 2.1     | Agreement and Plan of Merger, dated as of March 30, 2017, by and among TRC Companies, Inc., Bolt Infrastructure Parent, Inc. and Bolt Infrastructure Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on March 31, 2017) |
| 10.16   | Credit Agreement, dated as of January 31, 2017, by and among TRC Companies, Inc., certain of its subsidiaries and Citizens Bank, N.A., (incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K filed with the SEC on February 2, 2017)                            |
| 31.1    | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2    | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1    | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2    | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRC COMPANIES, INC.

May 4, 2017

By: /s/ Thomas W. Bennet, Jr.

Thomas W. Bennet, Jr.  
Senior Vice President and Chief Financial Officer  
(Duly Authorized Officer, Principal Financial Officer and Principal  
Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher P. Vincze, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TRC Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Christopher P. Vincze

Christopher P. Vincze

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas W. Bennet, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of TRC Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Thomas W. Bennet, Jr.

Thomas W. Bennet, Jr.

Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of TRC Companies, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher P. Vincze, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

*/s/ Christopher P. Vincze*

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Christopher P. Vincze

Chief Executive Officer

[A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to TRC Companies, Inc. and will be retained by TRC Companies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of TRC Companies, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas W. Bennet, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Thomas W. Bennet, Jr.

Thomas W. Bennet, Jr.

Chief Financial Officer

[A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to TRC Companies, Inc. and will be retained by TRC Companies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]